The Boeing Story

High-Level Messaging… a balanced view

SIGNIFICANT OPPORTUNITIES AHEAD

Aerospace & Defense Market Remains Healthy
- BCA and BDS markets overall are large and growing in the aggregate
- Airline passenger traffic growth is well-above the 10-year average (YTD 2016 +6.0%)
- Airline profitability up, many customers accelerating fleet replacement
- Orders correlated with profitability (which is strong)
- Chinese pax growth strong (~15% 2015), under-served by 1,000 aircraft today, needs 6,300 over 20 years
- FY17 DoD budget request continues to support our key programs

Robust Backlog - Unprecedented Opportunity
- Backlog remains at near-record levels (5,693), geographic/customer diverse
- Allows us to efficiently manage the skyline and profitability plan production

Expect Long-Term Top-Line Growth
- BCA annual deliveries will grow well beyond 900 a/c a year next 5 years
- Growth from announced production rate increases and firm backlog
- Still ahead the introduction of the MAX, 787-10, Tanker, and 777X
- Deliveries will grow y-o-y throughout that time period… driving revenue, earnings and cash flow growth

Increasing Competitive Position and Profitability
- Driving productivity to increase competitive position & increase profitability
- BCA and BDS striving to have mid-teen margins towards the end of the decade
- Accelerating Efforts: PFS, MBA, CVQ, Dev Program Excellence, 2nd Century Manufacturing (automation), Internal Optimization (headcount)

Generating Robust Cash Flows
- Cash flows of $29B over the last 3 years; significant opportunity ahead

Significantly Returning Cash to Shareholders
- Increased dividend 125% over past 3 years; repurchased ~165M shares
- Committed to future share repurchase with $8.5B repurchase authorization remaining; growing dividend with earnings
- Returning approximately 100% of free cash flow back to shareholders

MINDFUL OF RISKS

Remain Watchful of Evolving Market Conditions
- Seeing signs of softness in a few markets (Russia, Brazil); prudently monitoring Middle East demand given low oil
- On the lookout for signs that customers changing fleet strategies
- As always, we have seen some cancellations/deferrals but they remain well below the historical average
- *HOWEVER: at this time we remain confident the global aircraft demand*

Need to Sell More 747s
- Continue to have a few whitetail 747s that we need to sell; cargo market slow to recover (YTD 2016 volume flat)
- Have a production slot in '16 that we need to fill; have fair amount of work left to do to fill up 2017 skyline
- *HOWEVER: 747 is the only very-large freighter available*

Working to Fill the 777 Bridge
- Still need to sell 40-50 a year, we have a fair amount of work left to do
- Seeing normal end-of-life pricing pressure
- *HOWEVER: working productivity to lower costs; 777 is the only 365 seat a/c available*

Solidifying 787 14/mo Production Rate
- Securing additional orders to solidify our end of decade 14 per month production rate plan remains a priority

Vigilant About the Competitive Landscape
- Recognize Airbus could use the near-term FX rates to their advantage
- Always mindful of how airplanes stack up relative to the competition
- Remains a highly competitive market, prudently monitoring new entrants
- *HOWEVER: we have great line-up, technology advantage, driving down costs*

Critical Development Programs Underway
- Must finish Tanker development – still have more refuel connections to make
- Critical that we smoothly get through 737 MAX flight test
- Remain vigilant and focused on 777X development costs
- *HOWEVER: making solid progress on KC-46, 737MAX going well, 777X on track*

Analyst Top Questions 7/21/16

Commercial Questions

1. **Is the 787 program taking a reach-forward loss/was the program in a loss position prior to the reclassification?**
   - No, we are reclassifying the costs of two flight test airplanes as research and development expenses because we determined that the airplanes do not have commercial value beyond serving as test assets; the program was not in a loss position prior to the reclassification
2. **The airplanes were built in 2009. Why did Boeing decide to reclassify the airplanes now?**
   - We had been actively marketing these airplanes to potential customers and had planned to introduce the jets into our modification line to ready them for future delivery. We were facing a deadline within the next several weeks to begin buying parts to refurbish the airplanes. We had to decide whether to proceed with the planned modification. After a thorough analysis of likely demand, revenue potential and required investment, we made the prudent financial decision to not invest additional funds to undertake the modification. It's the right decision that will strengthen our business going forward.
3. **How much did 787 program margins go up and why didn't BCA margin guidance improve ex-charges?**
   - There is a positive impact on the 787 Program's profit margins, which are in the low single digits. Our guidance takes into account the new 787 program margin. However the program's profit margin remains at a low-single digit and, as such, is not a significant contributor to BCA's year-end earnings position.
4. **How does this change the slope of 787 deferred production costs?**
   - The 787 deferred production balance has decreased due to the reclassification. We expect deferred to continue to decrease going forward, but the slope of the burn down has slowed due to the increase in program margins. Deferred changes can vary quarter-to-quarter based on a number of factors, including program margin changes. Overall, we expect no fundamental changes to the cash generation of the program.
5. **Was the reclassification part of an ongoing SEC investigation?**
   - Will not comment on any potential or ongoing SEC investigation. However, this reclassification is simply part of our normal closing process
   - We have used program accounting for decades; this is an approved method under GAAP accounting; we continue to file our 10Q's we stand behind those financials as do our external auditors
6. **Why don't you shut down the 747 program and what is the financial impact of a shutdown?**
   - The 747-8 is a great airplane in a challenging market and we continue to see the 747 Freighter as a unique and significant value creator for our customers over the long-term. We will continue to closely track air cargo and make the right decisions that drive shareholder value.
   - The program has now been significantly de-risked as all the 747 deferred has been written off; ~$370M of unamortized tooling remains
   - Continuing to assess how a potential shutdown may impact or benefit other programs.
7. **With widebody orders being low for the year, are you seeing weakness in this segment of the market?**
   - We're not where we want to be on the 777 but we're still targeting 40 orders for the year; seeing softness in certain areas and we're closely watching market conditions. If we need to make a rate decision, it will be market based and we still have time to implement a rate decision.
8. **Can you provide more insight into the 747 charge?**
   - We have decided to make the decision of further adjusting our production plans to account both for the current market pressures as well as our lower outlook for demand for this aircraft going forward and lower our pricing assumptions for unsold aircraft
   - We will remain at the 0.5/month rate rather than increase to 1/month in 2019; reducing accounting quantity by 19 units
9. **How should we think about commercial margins and what is the time-frame to reach mid-teen margins in BCA?**
   - Objective to get to double digit BCA margins next year; focusing on mid-teens, aspirational goal, towards the end of the decade
   - The path to improved margins include incremental improvement to the productivity framework that we have put in place...capturing the value of quality, partnering for success, second century manufacturing, internal optimization and development program excellence…as we capture additional productivity, we will include the resulting incremental benefit in our program accounting margins
   - Block extensions to programs often are accretive to margins; growing our healthy margin aftermarket business will also be margin accretive
10. **Can you provide more context around the 777 production bridge?**
    - Booked 101 orders past 2 years; booked 8 orders in 2016; need annual orders of 40-50 a year to fill the bridge
    - 2016 is sold out at 8.3/mo, transitioning to 7/mo in 2017 and more than 80% sold out, ~60% sold out in 2018; firm backlog of 175 777s
    - In 2018 we expect the production rate to be 7/mo but we'll build 6 777-9 test a/c and similar to our transition to 787-9, we'll have longer flow times and learning associated with the first few a/c which ensures a smooth transition. As a result, we expect actual deliveries to decline to ~5.5/mo in 2018; timing of transition in 2018 will be dependent on progress of development schedule
11. **Can you provide comments on recent media reports surrounding slow progress with FAUB?**
    - Automation is a step function change to the manufacturing process; set big goals and see improvements with each section that goes through FAUB; believe we have right process in place; 15 sections built to-date using FAUB process, including delivery of FAUB airplane
12. **Can you talk the eventual burn down in deferred production and how fundamental 787-9 and 787-10 are to this?**
    - The build-up in deferred production was largely attributable to the 787-8 development and all the challenges we faced.
    - Approximately 70% of the deferred production cost recovery on the 787 program is expected to come from a better delivery mix of -9 and -10 aircraft and improved pricing going forward that isn't impacted by launch pricing or settlements; approximately 25% of the deferred production cost recovery is expected to come from supply chain cost step downs which are largely under contract (80-85%); the remaining recovery is expected to come from internal productivity and is based on similar learning curves that we've experienced on other programs
13. **How does the level of requests for deferrals and cancellations today compare with past history?**
    - Deferrals (net of accelerations) and cancellations are currently ~1%; continue to be well below historical avg. of 6% (2001-2015)
14. **What's the status of the 737 MAX EIS and why did you move the EIS from 3Q17 to 1H17?**
    - The testing is on track and aircraft performing well with all four test aircraft flying and over 800 hours of flight test completed
    - Completed stability and control and high altitude testing; LEAP-1B engine is in a good state
15. **How are you doing with Partnering for Success?**
    - Engaged with more than 800 suppliers; effort producing savings across programs…Implemented ~2,300 ideas with ~1,000 ideas in pipeline
    - Focused on win/win solutions…collaborative efforts to improve productivity through design, manf process & supply chain architecture
    - Achieved benefits included in program margins; more targeted cost reductions ahead; this is a way of doing business going forward
16. **Are you worried that passenger traffic has begun to decelerate (May growth was 4.6%...slowest pace since Jan '15)?**
    - Passenger traffic numbers move from month to month; YTD passenger traffic expanded by 6.0%.
    - We continue to see a generally healthy commercial airplane marketplace driven by improving airline profitability, strong passenger traffic growth, and meaningful replacement demand, and global airline load factors are at record levels of about 80%.

17. Can you talk more about your plans to <u>grow your commercial and defense parts and services business?</u>
   - See strong growth opportunities in services with a market size of well in excess of $4 trillion over the next 20 years
   - We are exercising more control over our IP; we are doing more non-parts service work leveraging data analytics that allow operators to more efficiently maintain the aircraft or fly in a way that reduces fuel burn
   - Recent examples: We recently announced agreements with six airlines from around the world to provide advanced analytics solutions to increase their efficiency in operating over 500 airplanes and Norwegian committed to GoldCare coverage for its 737 MAX fleet and expanded coverage of the airline's entire 787 fleet—this represents the largest commercial services order in Boeing history.
   - Now have 60 airlines enrolled in subscription contracts for Boeing Maintenance and Engineering work on 2,200 airplane and 84 customers with 3,825 airplanes are benefitting from our Airplane Health Management subscription program
18. How should we think about the timing of a <u>787 block extension</u> and how will the extension effect your financials?
   - Our current 787 accounting quantity is 1,300 units and we expect to add blocks of 100 units as appropriate based on our two part test
   - Test includes a time component and a sold firm component; accounting quantities typically include ~4-5 years of future production
   - We expect 787 block extensions to be accretive to margin as incremental units are more profitable
   - In the quarter that the block extension occurs, our program margins, which reflect balance-to-go gross margin, would likely increase (holding all else constant) and earnings from that quarter forward reflect the higher program margin
19. What are your plans for a <u>stretched 737 MAX9 or New Middle of the Market Airplane?</u>
   - Constantly in dialogue with customers to understand needs and market opportunities; but it is far too early to provide details or specifics
   - Decisions made on new models or variants should not change our outlook for relatively stable R&D spending through the decade
20. Can you provide more insight into your <u>2016/2017 delivery guidance?</u>
   - On pace to deliver 740-745 aircraft in 2016 (delivered 375 YTD); always see quarter to quarter variations in our business
   - Full year we expect about a dozen fewer 737 deliveries (2 test a/c; ~9-10 build aheads); fewer 767s as we're building ahead KC-46 Tankers; fewer 747 deliverers due to slow demand in air cargo market; 787 deliveries similar to 2015 ('15 benefited from timing; '16 rate to 12/mo)
   - Expect 787 deliveries in 2017 similar to 2016 as we build 787-10 test a/c and have longer initial flow times (very similar to 787-9 introduction)
21. How will <u>Brexit</u> impact your business?
   - We constantly manage changes in political circumstances & we will continue to do so now with the evolving situation in the UK and Europe.
   - We see minimal impact to our business as the UK only accounts for ~3% of our commercial backlog and all of Europe accounts for ~18%
22. How is the <u>current order environment</u> and where are you seeing demand?
   - Pax traffic growth well above 10 year average ('16 IATA forecast ~6%); increasing airline profitability (10% increase to $39B in '16)
   - Expect another year of healthy order activity in '16; targeting a BtB of ~1; targeted the team to a BtB of ~1 in '15 and we achieved it
   - Healthy demand from all regions; our backlog is well diversified with 2/3 of our backlog now outside the U.S. & Europe
   - China, India, Indonesia have great needs over next 20 years (account for 40% of world's population but only 14% of world's a/c fleet)
23. Can you discuss the pricing environment?
   - Industry has always been highly competitive, continues to be the case; have not seen material change to our booking rates, have assumed some pricing pressures on various models
   - IF ASKED ABOUT BY MODEL: 787 and 737 pricing is competitive, 747 pricing is challenging, 777 some pressure as expected, 777X normal
24. How should be think about <u>Southwest's announcement to defer aircraft…are deferrals increasing?</u>
   - Our strong 737 skyline gave us the flexibility to help Southwest with their unique fleet requirements by accelerating deliveries in the near-term while finding a mutually-beneficial way to sequence the growth of Southwest's 737 fleet over the long-term.
   - Given demand for the 737 MAX and being sold out for so long, those can be very attractive slots for us to remarket or move a customer into.
25. How should we think about <u>market share?</u>
   - Deliveries are what counts; currently delivering 50% of the single-aisle market
   - We continue to maintain a balanced approach, we remain competitive in the market place but we are not chasing after market share
   - We have walked-away from some campaigns because of pricing; it's not the only way we win in the market place…design/build quality, reliability/maintainability, aircraft performance, delivery discipline, world-class customer support all factor into winning in the market place
   - Two of our top customers have ordered ~450 airplanes for their combined fleet of more than 1,000 airplanes
   - See continued demand from our top 20 customers with a 737 fleet total of approximately 4,750 aircraft compared to orders of only 2,000
   - Of the ~250 current 737 customer, ~200 have yet to make a decision on their next generation narrow-body aircraft; top five 737 customers have been pretty conservative about what they've done with respect to their 737 MAX orders in relationship to their installed fleet
   - Our backlog has a high quality customer base; vast majority of emerging market airlines have been established more than ten years
26. How should we think about supply vs. demand, <u>are you over supplying the market</u>?
   - We always remain watchful of evolving market conditions and closely monitor the market to ensure supply matches demand
   - Cargo market slow to recover, passenger traffic growth continues to be strong with load factors at historical highs
   - Deliveries will remain healthy at 7% of the fleet…assumes fleet growth of ~4% and retirements of ~3%
   - Wide-body demand over the past several years was under-served following 787/A350 delays (now catching up thru 2020-21)
27. Have you seen <u>impact</u> from the <u>strengthening dollar</u> and has <u>pricing been impacted by it or introduction of the "C" series</u>?
   - No correlation between FX and demand; airlines don't "game" FX changes; high correlation between airline profitability and demand; better fuel economics, lower maintenance cost, higher passenger and cargo capacity; better passenger experience; manage fleet for long term
   - Pricing for 737 in line with expectations; no significant changes to margin position
28. How are you looking at <u>China given the potential concerns relative to long term GDP growth</u>?
   - Conservative GDP trends and China's infrastructure investments, indicate the Chinese market needs 6,330 new a/c over the next 20 yrs
   - China market underserved today by 1,000 aircraft, airports are set to expand from 175 in 2010 to ~240 by 2020 (~20% growth)
   - Traffic growth exceeded GDP over the last 5 years (traffic growth ~13%; GDP growth ~7%); ~15% passenger traffic growth expected in 2016
   - Drivers of China demand include resilient passenger traffic that continues to outpace GDP, middle class growing 10% annually through 2025, air travel expanding to 2nd tier cities & freighter traffic increasing on growing demand for expedited freight
   - China has 4 of the 10 largest airlines, Airplanes per capita avg. 1 per ~45K in U.S., but only 1 per ~525K in China

29. Will you be able to hold margin on 737 and 777 as they transition?
- Expect to hold margin on 737; current margin incorporates both models; no significant change to booking rates
- Lower production rate on 777 in accounting block; only a slight impact to margin; expect the 777 program to remain highly profitable through production transition; continuing to drive productivity efforts; airplane continues to provide significant value to customers
- 777X has its own accounting quantity; learning associated with new airplane; expect margin to improve as production matures

30. What are the implications for aircraft demand from low oil prices?
- No correlation between orders & oil prices; industry profitability drives orders; we see low oil prices as an enabler of airline profitability
- Airlines make long term decisions when investing in new aircraft; cancellation/deferral requests remain at historic lows
- In prior periods of low oil/strong GDP, airlines utilized deliveries for growth; seeing this occur as pax traffic is above long term growth rates

31. Does oil price volatility have any impact on the escalation indices you use for Commercial aircraft sales agreements?
- Commercial Aircraft purchase agreements have escalation clauses which escalate revenue from base year pricing to delivery year
- We typically use either CPI or ECIW escalation indices that are generated off an assessment of aerospace commodity and labor costs
- Oil is an element of these indices, this potentially impacts our forecast for future revenues; over time, we expect costs will also adjust

32. Any impact on your business from the increasing signs of distress in emerging markets? Higher deferrals?
- Excl. China & India ~15% of our backlog is from emerging markets…most are for airlines with >10 years in operation
- Some weakness in Russia and Brazil, however deferrals cancellations at historic lows (~1% backlog movement in '15 vs 6% LT avg)
- China/India/Indonesia contain 40% of world population but 14% of world fleet

33. How are you managing development program risk?
- Using our disciplined gated development process…enabled us to accelerate 737 MAX EIS from 4Q17 to 1H17
- Disciplined approach to R&D, focus on technologies that customers are willing to pay for and provides sufficient return on investment
- Maximizing hard fought technology investments and lessons learned…4th generation composite wing on the 777X

34. What is the status of the agreement with Iran and what are the next steps?
- Boeing has signed a MOA with Iran Air expressing the airline's intent to purchase 80 commercial passenger airplanes (737 NG, 737 MAX, 777-300ER, 777X, 747) with deliveries scheduled to start in 2017 and run through 2025. The MOA also expresses Boeing's intent to help Iran Air lease 29 new 737's.
- Boeing negotiated the MOA under authorizations from the U.S. government following a determination that Iran had met its obligations under the nuclear accord reached last summer. Boeing will continue to follow the lead of the U.S. government with regards to working with Iran's airlines, and any and all contracts with Iran's airlines will be contingent upon U.S. government approval.

35. How important is Ex-Im bank to Boeing and what is the status of a potential extension/ quorum?
- ExIm is an important financing source for our customers; levels the playing field as European countries have export banks
- ~9% of 2015 deliveries supported by the ExIm bank and that has steadily declined as there is ample financing available
- Ex-Im lacks a Board quorum and so remains unable to issue final commitments; it's troubling a single Member of Congress is standing in the way of a quorum, although Congress overwhelmingly re-authorized the Bank; we continue to mitigate the impacts

Defense Questions

1. Can you talk about the moving pieces (C-17, Tanker, etc) within defense revenue over the next few years?
- We see flat to modest growth over the next 5 years; declines on C-17 expected to be offset by Tanker, satellite, and services growth
- We see growth potential in rotocraft with new multi-year contracts for Chinook & V-22 plus strong int'l interest

2. Can you talk about improving margins at the defense business in light of higher margin work winding down?
- Continue with our MBA efforts that has taken out $6B from our cost structure & we are targeting additional reductions
- Addressing all elements of cost – home office reduction, manager & exec reductions, footprint & overhead reductions, pension plans & PfS
- Focused on harvesting synergies between GS&S and CAS; see opportunity to capture significant annual savings in the coming years

3. How confident are you in continued demand for F/A-18 and F-15?
- We continue to see both domestic and international interest in our fighters that are combat proven, affordable and have advanced capabilities... all of which provide incredible value to the warfighter.
- The DoD FY15 budget included 15 Growlers and the FY16 budget included 12 additional F/A-18s; PB17 include 2 OCO a/c and 14 UFR a/c
- We continue to see interest for our fighters from potential customers in Europe, Middle East and Canada.

4. What role do you expect international sales to play in the top line outlook?
- We see international demand for our portfolio of reliable, affordable and proven products with advanced capabilities
- ~35-40% of our backlog is now outside the U.S; aim to sustain at a level greater than 30% of our sales
- Opportunities exist with local presence and partnership becoming more essential; our local presence a differentiator
- Middle East interest for fighters and rotorcraft; UK interest for P-8; Other international opportunities for V-22 and Tanker
- Opportunities for international growth in services and support beyond the one-third of international revenue booked in the segment today

5. Can you describe the elements of the Tanker charge in more detail why is the charge larger than last quarter?
- Implementation of the hardware solution to resolve the refueling boom axial load issue identified during flight testing; the solution has been proven to work during the F-16, C-17 and A-10 refueling flights.
- Costs associated with certification delays; Qualification and certification of the KC-46 CDS and WARP aerial refueling system is taking us longer than anticipated. We are working closely with the Air Force and have a plan in place to get us through all the necessary qualification testing and subsequent certifications. The WARP and CDS systems have performed as planned during Milestone C testing. The delay is not a functionality issue, it is because of conformity and qualification testing needed for certification.
- Higher costs for the overall revised schedule and concurrency between late-stage development testing and the initial production aircraft - All aircraft delivered to the USAF have to be in the certified configuration. Since Boeing built several aircraft (to protect RAA) ahead of certification, as previously announced, there are some changes that must be incorporated into these aircraft before delivery.

6. Can you provide the latest status on Tanker program?
- The KC-46 tanker program completed its required Milestone C aerial refueling testing in July. We have successful refueled an A-10, C-17, F-16, F/A-18, and AV-8B aircraft, and KC-46 was refueled by a KC-10. This paves the way to a Milestone C decision in August 2016 and follow-on production contract.
- We currently have 5 aircraft in flight test with 900+ hours complete, 10 aircraft in final production build, and 5 aircraft in the supply chain – up to tail number 20
- With a long-term market of up to 400 aircraft, worth approximately $80 billion, the KC-46 remains a franchise program, and we expect to realize a solid return over decades of production and in-service support.

7. How should I think about the cash impact of the tanker charge and delayed Milestone C decision?
   - In addition to investments for the hardware solution, revised schedule and change incorporation, cash can be impacted by customer payments for progress on the contracts. Based on our expectations, we do not anticipate a material cash impact in 2016.
8. What is driving your high levels of Defense R&D?
   - Investing to win new programs and capture new business, stay on the cutting edge of advanced manufacturing and data analytics and fund product enhancements
   - Focusing on right-sizing the investment while continuing to invest in the business
9. What impact does the FY17 budget have on your business?
   - Congressional marks largely support BDS priorities: KC-46 Tanker, P-8, Apache MY, Chinook, JDAM, GMD, NASA SLS & Commercial Crew
   - Three of four congressional defense committees add F/A-18s, V-22s, and C-40s above the budget request by the FY17 budget.
   - Support driven by strong on-cost, on-schedule performance in this more-for-less environment
10. How confident are you in your production programs going forward?
   - F-15 - Saudi contract for 84 a/c takes production into 2019
   - F/A-18/EA-18G – +12 F-18s in FY16 budget, potential middle east order (28 a/c+12 opts); ongoing campaigns (Belgium, Finland, Canada)
   - V-22 - Solid backlog; production expected to remain healthy into next decade; selected by Japan for their tilt rotor requirement
   - Chinook - Solid backlog; production expected to remain healthy through the balance of the decade; int'l could extend prod. into next decade
   - Apache - Solid backlog; production expected to remain healthy through the balance of the decade; int'l could extend prod. into next decade
   - P-8 - Strong backlog (U.S. Navy & Australia)…production ramping up over the next couple years
   - Tanker - Firm orders for 4 EMD a/c with USAF requirement for up to 175 production a/c; Japan selected KC-46 for its tanker requirements
11. In the defense business, what areas are you making investments? Key int'l growth areas and new business opportunities?
   - Focus areas: commercial derivatives, rotorcraft, satellites, services, human space exploration and autonomous
   - We are focused on today's large-scale development such as T-X Trainer, JSTARS recapitalization, MQ-XX (previously UCLASS)
   - Investing for future large-scale programs like JMR - Partnership with Sikorsky/Lockheed to replace the Black Hawk
   - Expect international sales to grow over the long-term driven by healthy demand for P-8, fighters, rotorcraft and services
   - Growing our services and support businesses; it's healthy, cost-competitive and seeing more demand internationally

TBC Financial Questions

1. Did Boeing change its supplier payment terms from net-30 days to a longer time frame?
   - To align with industry norms and support our competitive position, we are in the process of adjusting the payment terms of our large suppliers. In most if not all cases, our new payment terms are in line with their payment schedules to their own (sub-tier) suppliers.
   - Recognizing that smaller suppliers may have different cash flow needs, Boeing instituted a policy that exempts all US small and non-profit suppliers from this change. We work on an individual basis to meet payment schedule needs of small suppliers overseas.
2. What is the source of growing cash flow and how much cash (cash balance) do you need to run the business?
   - We expect year-over-year growth driven by higher production rates, improving 787 cash profile, and strong performance
   - Maintaining a cash balance in the high single digits billions ($7B to $9B) is prudent to run day-to-day operations of the company
   - This level also allows us to invest in growth areas of the business and manage risks that may arise
3. Could you give us more color on your relative priorities for cash deployment?
   - First priority is organic investments in commercial and defense development programs to drive growth
   - Second priority is a balanced and disciplined approach to returning cash to shareholders (100% of free cash returned to shareholders); lowered sharecount through repurchase of approximately 165M shares and dividend up 125% over last three years.
   - M&A is a lower priority, continue to assess selective acquisitions to help us build out our portfolio (BCA/BDS services, ISR, unmanned). This being said, we will continue to look at all opportunities to ensure we are optimizing our portfolio to maximize value for shareholders.
4. Can you talk about the CapEx and R&D profile going forward?
   - We expect 2016 to be the peak year for capital expenditures and then we expect a decline as 777X investments begin to abate
   - We expect stable R&D spending going forward (2016 level ex LN4/5); near term increases for 777X as 737 MAX and 787-10 begin to abate
5. Can you talk about the moving pieces that drive cash flow in 2016 and when will cash flow peak?
   - We see long-term consistent y-o-y growth in cash flows due to higher production rates & our focus on productivity
   - 2016 cash flow grows on strong operating performance and improved 787 cash generation
   - Headwinds in 2016 include inventory build on 737 and Tanker transitions and international C-17 order timing
   - Expect cash flow to grow in 2017 and 2018 with 5 more key rate increases this decade, PfS, 787 improvements & solid BDS
6. Advances have been a big driver of cash; avg +$4B/yr since '11 &~$7B in '14; how do we think about this for '16 & on?
   - Advances were not a material driver to cash in 2015 and has not benefitted '16; cash generation is driven by core operating performance
   - Expect advances to continue to be a positive contributor to cash flow in the future with planned rate increases ahead
   - We get about 1% down on each order; most advances tied to pre-delivery payments starting 18-24 months before delivery
7. How should investors think about the pace of share buybacks and the future pace?
   - Repurchase authorization has $8.5B remaining and we expect to buy-back to occur over the next 2 years
   - Our repurchase activity since the beginning of 2014 demonstrates our confidence in the cash flow profile of the company…we will continue to take a balanced approach to cash deployment. We continue to believe the share price is very attractive at current levels.
8. How should we think about your dividend strategy going forward?
   - In '13 we increased our dividend 50%, increased it by 25% in 2014, and increased it again by 20% in 2015; a 125% increase in three years
   - Demonstrates confidence in the long-term cash flow for the company; going forward we plan to maintain a competitive dividend
9. What is the strategy in terms of managing and funding your pension liability?
   - Required contributions are expected to be minimal over the next year; there are no material contributions planned for 2016
   - Transitioned 60k employees from DB to DC in January; nearly all employees will be covered by DC plans in coming years versus 60% today
   - 2016 GAAP pension expense to be in line w/ '15; '16 core pension expense to increase as CAS harmonization continues to phase in
10. What are the key risk & opportunities that could impact 2016 guidance?
   - Risks: watching escalation; 747 orders in 2016; need to continue to sell 777 bridge; development programs continue as planned
   - Opportunities: continuing to work productivity; successful transition on MAX; BDS performance