



▲ W. James McNerney, Jr., Chairman, President and Chief Executive Officer

Message from the Chairman

To the Shareholders and Employees of The Boeing Company: Let me begin by saying that I've known and admired this company for a long time — as a supplier partner, a member of the board, and, since July 2005, as chairman and chief executive — and I am pleased with our strong results in 2005. Last year provided us with a terrific foundation for even better performance this year and beyond.

charting the course

Our earnings per share rose 42 percent, our revenues rose 5 percent, and our operating cash flow doubled — to \$7 billion. Excluding special items, our core earnings per share rose 16 percent. Our operating engine is hitting on all cylinders.

The year was tremendously successful for our Commercial Airplanes business, which set a Boeing record with 1,002 net (1,029 gross) orders for new airplanes. Our Integrated Defense Systems business showed strong financial performance — with record revenues, earnings and margins — and continued its success in building a larger backlog than that of any other defense contractor. We achieved these results despite a softening defense market, a strike that shut down produc-

tion in our commercial airplane business for four weeks and another strike at our launch systems business.

The growing strength of our core commercial airplane and defense businesses can be seen in the 34 percent increase in total backlog — to a record \$205 billion at the close of 2005, nearly four times our total revenues for the year. In addition, our stock price increased 36 percent over the course of the year, leading all major U.S. aerospace companies in share-price appreciation during 2005. Finally, we increased our shareholder dividend by 20 percent.

I can't take credit for this performance, but I can give full credit and thanks where it is due — to the Boeing employees

who maintained their discipline and focus throughout a year of challenges and distractions, and especially to James Bell, who led the company as interim CEO for several months. We can all be proud of an excellent team effort that revolved around satisfying our customers and executing our programs to plan. Because of our people's performance, Boeing is a vital company — with strong financial results, a burgeoning order book, and extraordinary upside potential.

Charting the Course

Boeing is a unique company with unique strengths. Our people have a passion for what they do and take pride in how they do it. They exhibit an enterprising spirit, put the customer first and believe that the

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technology they deliver can help change the world.

As Boeing has evolved over the past decade, it has become a much broader and more diverse company—a major player and a clear leader in both commercial airplanes and defense. We are realizing the value in having a balance between the two businesses, where their differing cycles can offset one another.

My goal is not to replace or reinvent Boeing's vision and strategy. It is to reinvigorate the Boeing culture, spur growth and provide the tools for every individual in the company to make a greater contribution. I believe that we can do a substantially better job of capitalizing on the amazing diversity of capabilities and talents that exist within this company. We can “play bigger” as a team and make the whole add up to more than the sum of the parts. Bottom line: We are going to build strength on strength in a way that engages all of us.

The foundation for this will be driving and nurturing a culture of leadership and accountability. We have started by setting

challenging, but attainable, financial objectives and linking them more strongly to our own pay and career development. An intense but equal pursuit of growth and productivity will be the building blocks of our improved performance.

Growth and Productivity

Most fundamentally, we will set out to achieve significantly improved performance over the next 5 to 10 years—achieving both accelerated top-line growth and improved margins and cash generation.

No substantial business I know of has been able to achieve long-term growth without continuing impressive gains in productivity. Just as companies seek to achieve gains in productivity, lean manufacture and quality through the application of rigorous and disciplined processes, I believe that it makes sense to think and talk of growth as a *process*—and not an intermittent series of opportunities. With growth, the process begins with listening to the customer and formulating the right concept for sustained and profitable growth that fits the customer's needs.

Like the larger Boeing 777 before it, the Boeing 787 Dreamliner—which has won widespread recognition as the most innovative and successful launch of a new commercial airplane since the introduction of the 707 nearly 50 years ago—illustrates the power of a business-led and customer-inspired idea.

The Boeing 787 Dreamliner pushes the envelope of flight in ways that offer the greatest value to our customers and our customers' customers (the traveling public). It opens up the possibility of economical, convenient and comfortable long-distance flight between scores of new city pairs. That makes it a real game-changer in the marketplace—and a source of long-term growth for our company that may very well be measured in decades, not just years.

Likewise, Future Combat System, the centerpiece of the U.S. Army's ongoing modernization, is another significant business opportunity for Boeing. FCS will revolutionize the way U.S. forces operate. Soldiers will still make critical decisions, but those decisions will be

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better informed through a networked system of manned and unmanned ground and air vehicles and sensors. Conflicts on the future battlefield will be determined not by who has the most assets, but by who has the best information and knowledge of the battlespace — by who can see first, understand first and act decisively.

Boeing Initiatives

To accelerate growth and productivity gains across the enterprise, we rolled out four initiatives that will provide our people with powerful tools. Each of the initiatives is sponsored by a corporate officer with a senior executive assigned to lead it on a day-to-day basis. These initiatives are designed to be measurable — with clearly defined goals and metrics over a multiyear time frame. The four initiatives are:

» Internal services productivity

Sponsor: James Bell
Leader: Rick Gross

Internal services include our Shared Services organization and finance, information technology, legal and other functions. One of the main

impacts here will be on productivity — in eliminating redundancy, improving efficiency, and providing more timely service.

» Global sourcing

Sponsor: Jim Albaugh
Leader: Norma Clayton

We will do a better—a more disciplined—job of leveraging the purchasing power of the entire company. We aim to achieve greater economies of scale and to make the most rational use of the worldwide Boeing supply chain to drive down costs and improve both quality and response time for ourselves and our customers.

» Lean+

Sponsor: Alan Mulally
Leader: Bill Schnettgoecke

We will continue to accelerate our application of Lean principles throughout our factories, as well as the entire enterprise, as we move it to our front offices and back shops, upstream to our partners and suppliers, and downstream to our customers. Lean principles must be deeply embedded in everyone’s thinking across the company as we apply them more broadly and more intensively to everything we do.

» Development process excellence

Sponsor: Jim Jamieson
Leader: Nan Bouchard

This initiative is about increasing the speed and improving the yield of both our traditional research and development and major development programs such as the 787 Dreamliner and Future Combat System. Like other parts of the business, the effectiveness and productivity of our R&D efforts will be measured, and managed, with a view toward eliminating duplication of effort, maximizing return to shareholders, and ensuring that we are pursuing the right programs and the right products—from a customer-oriented perspective.

Leadership

Leadership development is the key to driving sustainable growth and productivity, and I consider it one of my top priorities. Through a collaborative effort involving the entire executive council, we have devised our own leadership model. In it, we not only define leadership; we also operationalize it. We lay out the roadmap by which we model it, teach it,

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expect it, measure it and reward it.

In order to ensure that we engage every person in the company, we have defined a set of attributes that personalize the behaviors we expect our leaders to embody: *chart the course, set high expectations, inspire others, find a way, live the Boeing values and deliver results*. We are in the process of embedding these simple but powerful expectations into our human resources systems and processes. Over the next two years, we will implement a compensation approach whereby we measure our leaders against both performance goals and leadership attributes — and reward them accordingly. In short, we are molding the kind of leaders we want to take us into the future — leaders who are not merely equal to, but are better than, the leaders of today. As our people grow, so will Boeing.

In going forward, there will be no tradeoff between performance and values at Boeing; we expect our people to demonstrate both. I have called upon all of the leaders of this company to make

ethics and compliance a regular topic of conversation with all of their people. Today's governance and regulatory world impacts all companies, and the best companies will figure out how to make a competitive strength out of managing ethics and compliance as a process — just as they do in managing the quality of their products. As with quality, you have to earn your way every day. We intend to make ethics and compliance a Boeing strength.

In Closing

No account of the year would be complete without acknowledging our gratitude to Lewis E. Platt. Lew rendered immense service to Boeing as a long-serving board member and the company's non-executive chairman from December 2003 through July 2005. I can think of no business leader who better exemplified the connection between *values* and *valor*. Both come from same root — the Latin word for strength. As much as we mourn his passing, we take inspiration from his life and example.

Boeing is celebrating its 90th anniversary in 2006. It reminds me that there are a significant number of people like Lew who have left us the rich legacy that we have the privilege of carrying forward. I'm impressed not only with the history that precedes us, but also with the tremendous opportunities that lie ahead.

We look to the future with the confidence that comes from knowing that our businesses are well positioned in healthy markets, with every expectation of continued strong growth in the years ahead. With the initiatives that we have launched, we are focused on driving performance to new levels. The Boeing Company aspires to deliver financial results that match the quality of our people and our technology, which is a meaningful improvement from where we are today. Our abiding goal is to deliver the greatest value to our customers and shareholders.



Jim McNerney
Chairman, President and
Chief Executive Officer