

# Message From Our Chairman



*To the Shareholders and Employees of The Boeing Company: This was an important year for Boeing. Not only did we observe our 90th year in business, but I also believe that, when we look back on 2006, we will see it as a pivotal year in the company's history. It will be viewed as a year in which we turned the corner and positioned ourselves for what promises to be an exciting future and a period of accelerated and exhilarating growth.*

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

The great progress we made in 2006 provides the foundation for even better performance in 2007 and beyond. The challenge before us now is to unleash the full potential of The Boeing Company to deliver on this promising future.

In 2006, we witnessed what is possible when we focus on both growth and productivity. We delivered double-digit increases in revenue and core earnings per share. Revenues rose 15 percent to a record \$61.5 billion and, excluding special items, our core earnings per share rose 51 percent to \$3.62 reflecting strong performance across both of our principal businesses. Our 2006 reported earnings per share totaled \$2.85, down from \$3.20 in 2005.

We also delivered a record year in cash flow, commercial airplane orders and total backlog. Our cash flow went from strong to stronger; it grew from \$7 billion in 2005 to a record \$7.5 billion — 12 percent of our revenues — and that was after we had invested in our growth programs and fully funded our pension plans.

Boeing Commercial Airplanes had a tremendous year, adding 1,044 net orders for new airplanes to break the record of 1,002 net orders set in 2005. We also smoothly and efficiently increased our production rate by more than a third. We delivered 398 airplanes to a broad range of customers in 2006, compared to 290 in 2005. We did this with a disciplined approach that we will continue to use as we ramp up production rates further to meet our commitments for 2007 deliveries and beyond.

Integrated Defense Systems also showed strong financial performance. IDS delivered continued healthy margins and record revenues in 2006. Despite a moderating defense market, this business continues to do well — winning important new business such as the SBInet program, which supports the U.S. Department of Homeland Security's Secure Border Initiative, and meeting key program milestones.

With the great success we have had in winning new business over the past two years, our backlog has increased 60 percent to more than \$250 billion — more than four times our total revenues for 2006 and by far the largest backlog in our history. With solid execution and continuing gains in productivity, we expect to convert that backlog into delivered product, continue our strong sales and improve financial performance in the years immediately ahead.

Boeing's stock price increased 26.5 percent over the course of 2006, and for the fourth consecutive year, we have delivered 25 percent or greater total shareholder return. At the end of 2006, we increased our shareholder dividend another 17 percent, following a 20 percent increase in the dividend in 2005.

With our thanks, full credit for this outstanding performance should go where it belongs—to the employees of this great company. Boeing employees have maintained an unwavering commitment to delivering value to our customers and shareholders, improving productivity and enabling the growth of businesses that are leaders in their markets.

## Shaping the Future

In one of our principal businesses, our customers include the world's airlines and the traveling public. In the other, our customers include U.S. and allied military services and governmental agencies responsible for protecting people in countries around the globe. We have wonderful customers with a huge ongoing requirement for innovation and precise program execution. Without a doubt, if we do a great job of listening to them and finding the best way to satisfy their needs, Boeing will grow—and continue to grow—for many years to come.

Based on listening to our customers, we have built our commercial airplane strategy around a view of the market that distinguishes us from our competitor. We believe that the market demands more new nonstop service and more frequent flights between destinations—not increased airplane capacity or size. The 777-200 Longer Range airplane, which entered service in 2006, is capable of connecting virtually any two cities in the world.

Meanwhile, the Boeing 787 Dreamliner is the most successful launch in commercial airplane history. The 787 program is essentially sold out from 2008—when first deliveries will be made—through 2012. As a result of greatly increased use

of composites and other advances in engines and aerodynamics, the 787 will use 20 percent less fuel and be 30 percent less expensive to maintain—all that, to put it into perspective, in an industry where a three or four percent improvement is considered a breakthrough. Imagine a new airplane that provides the highest comfort level of any widebody in the sky...that goes faster than other jetliners...and, most importantly, that enables airlines to offer more nonstop service...and greater convenience to customers...at significantly reduced operating costs...opening up the possibility of combining lower fares to passengers with greater profit to the airlines. That is the Boeing 787 Dreamliner.

Execution in several of our defense programs involves systems integration at the highest level of knowledge and complexity. Consider the challenge of intercepting a ballistic missile in space—and potentially saving millions of lives. In a test for the United States' Missile Defense Agency in 2006, a Boeing-led team demonstrated the ability to “hit a bullet with a bullet” in space—with the sixth successful intercept of a ballistic missile target.

During the past several years, Boeing has also emerged as the leading industry partner to the U.S. government in developing and applying network-centric solutions to a wide array of existing and emerging threats. In connecting different platforms, sensors and units—down to the individual soldier on the battlefield—the network acts as the ultimate force multiplier by enabling a dramatic increase in the sharing of information and capabilities in the battlespace. With the SBInet win, Boeing will apply network-centric thinking to help U.S. law enforcement agencies secure borders and halt illegal activities around them.

## Facing Reality

Not everything came up roses. It seldom does in any dynamic enterprise where opportunities and risks coexist. We faced some tough realities in 2006. Where we fell short or missed objectives, we were quick to respond with the necessary adjustments to reduce risk and reposition for the future. We are a stronger company as a result. To review:

- › We took a \$320 million charge to shut down Connexion by Boeing.
- › We absorbed the impact of cost and schedule growth on some fixed-price development programs in our defense business.
- › We increased our research-and-development spending for 2006 and 2007 by almost a billion dollars to reduce risk on our commercial airplane programs.
- › We reached a \$615 million settlement with the U.S. government, thereby ending investigations that had arisen from some serious past misconduct by Boeing employees.

In large part because of our collective productivity improvements, we were able to overcome a substantial portion of the impact these issues had on our financial results for 2006.

While we could have claimed a tax deduction for the litigation settlement, I felt strongly that the right thing to do was to deduct no portion of it. It was important to send a clear signal to our employees, customers, suppliers and shareholders that this is a different company set on a new course, and benefiting from these circumstances would have been inappropriate.

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### **Boeing Values**

As I've said before and firmly believe, "Operating with integrity will differentiate Boeing just as much as our technology, our diverse and talented people and our attention to customers."

We regard a high standard of integrity as one of the critical elements in the long-term health and growth of this company. Within Boeing, we are all—jointly and separately—responsible for ethics and compliance, as well as the success of this company. As a business, we owe it to our investors to find a way and deliver results—but we must do so within the Boeing value system. And we will not sacrifice our values in doing it. That means more than just refraining from engaging in overtly unethical conduct. Each of us accepts responsibility for upholding and representing the highest ethical standards. We believe that when we do and when we perform, our stock price and reputation will take care of themselves.

### **Charting the Course**

Charting the course, as I see it, doesn't start with launching a 787 Dreamliner or winning Future Combat Systems—as important as those programs, and others, are to positioning our company for the future. It starts, on a more elemental

level, focusing on long-term growth, constantly improving our productivity, and developing our people's leadership capabilities.

We're applying a time-tested model for organic growth. First, we're concentrating on growing our core businesses, which offer tremendous potential. Next, we want to move into adjacent markets where we have clear leverage. We are integrating products and services across our businesses where the combination of strengths represents a sustainable competitive advantage. Finally, we're leveraging our efforts internationally—extending our global reach by being more local in our approach. Our plan is not to take our technology and put it into every market we can think of. Rather, it is to take advantage of the huge opportunity for growth in finding new and better ways to address our customers' needs.

We grow as a result of satisfying customers with superior products and service. But even the greatest products can be—and usually are—copied or imitated. For a company's growth to be sustainable, it must be combined with an unrelenting focus on productivity. We are committed to continuously improving productivity. We have four enterprise-wide initiatives aimed at driving productivity improvements through every facet of our business—from internal services to global sourcing; from the development process and the factory floor to our front offices and back shops; upstream to our partners and suppliers; and downstream to our interactions with customers. We made good progress in each of these areas in 2006, but we can, and will, do even more. To inspire our people, we are embedding productivity targets in annual individual and team performance goals.

It is my personal belief that if the people who run and participate in a company grow, then that company's growth will—in many respects—follow naturally. It is no accident that a few of the best companies—year after year—continue to produce the best leaders. Such companies show the way in leadership development. They know the kind of leadership that is needed to succeed. And they model it, teach it, measure it, expect it and reward it.

And that is exactly the approach we are taking at Boeing. Regardless of whether a person is the head of a team of aeronautical engineers, a production line supervisor, or the chief accountant or lawyer in an office, we ask—and expect—Boeing leaders to do certain things well. They should *chart the course* for their unit or team, *set high expectations* and *inspire others*, *find a way* to conquer unexpected obstacles, *live the company's values* by always doing the right thing and *deliver results*. The challenge for a leader is to embody not one or two of those leadership attributes, but all of them. To overemphasize “setting high expectations,” for example, without “inspiring others” is to lose credibility as a leader. The same goes for “find a way” without “living the values.”

All of the attributes that we seek in a leader at Boeing come into play in the most important tool in the world for developing people and achieving strong performance within an open culture. That is the candid, constructive, one-on-one discussion between a manager and an employee. Done well, it is that interaction, more than anything else, that excites and moves people forward.

## Looking Forward

There is built-in excitement in doing things that other companies cannot do and turning dreams into reality. That is part of the heritage—and the destiny—of The Boeing Company.

In looking to the future, we have the confidence that comes from knowing that our businesses are well positioned with leading-edge products in healthy markets, with every expectation of strong growth in the years immediately ahead. With the launch of our growth and productivity initiatives, we are more intensely focused than ever on driving performance to new levels. We aim to elevate our financial performance—and we will.

Beyond that, we are excited at our long-term prospects. To be sure, we have a lot of work ahead of us—this year and next in particular—but because of what we've done over the course of 2006, and all that our employees continue to do to increase growth and improve productivity, we are in a very strong position as we begin that work.

As a company, we look forward to helping to shape a better future that will benefit all of our stakeholders—our customers, shareholders, supplier partners, employees and the communities in which we work and live. We want Boeing to remain the strongest, best integrated aerospace company in the world—and we want you to see us that way, too.



Jim McNerney  
Chairman, President and  
Chief Executive Officer