

Consolidated Statements of Financial Position

(Dollars in millions except per share data)

| December 31, | 2006 | 2005 |
|--|------------------|------------------|
| Assets | | |
| Cash and cash equivalents | \$ 6,118 | \$ 5,412 |
| Short-term investments | 268 | 554 |
| Accounts receivable, net | 5,285 | 5,246 |
| Current portion of customer financing, net | 370 | 367 |
| Deferred income taxes | 2,837 | 2,449 |
| Inventories, net of advances and progress billings | 8,105 | 7,878 |
| Total current assets | 22,983 | 21,906 |
| Customer financing, net | 8,520 | 9,639 |
| Property, plant and equipment, net | 7,675 | 8,420 |
| Goodwill | 3,047 | 1,924 |
| Prepaid pension expense | | 13,251 |
| Other acquired intangibles, net | 1,698 | 875 |
| Deferred income taxes | 1,051 | 140 |
| Investments | 4,085 | 2,852 |
| Other assets, net of accumulated amortization of \$272 and \$204 | 2,735 | 989 |
| | \$ 51,794 | \$ 59,996 |
| Liabilities and Shareholders' Equity | | |
| Accounts payable and other liabilities | \$ 16,201 | \$ 16,513 |
| Advances and billings in excess of related costs | 11,449 | 9,868 |
| Income taxes payable | 670 | 556 |
| Short-term debt and current portion of long-term debt | 1,381 | 1,189 |
| Total current liabilities | 29,701 | 28,126 |
| Deferred income taxes | | 2,067 |
| Accrued retiree health care | 7,671 | 5,989 |
| Accrued pension plan liability | 1,135 | 2,948 |
| Other long-term liabilities | 391 | 269 |
| Long-term debt | 8,157 | 9,538 |
| Shareholders' equity: | | |
| Common shares issued, par value \$5.00 - 1,012,261,159 and 1,012,261,159 shares; | 5,061 | 5,061 |
| Additional paid-in capital | 4,655 | 4,371 |
| Treasury shares, at cost | (12,459) | (11,075) |
| Retained earnings | 18,453 | 17,276 |
| Accumulated other comprehensive loss | (8,217) | (1,778) |
| ShareValue Trust shares | (2,754) | (2,796) |
| Total shareholders' equity | 4,739 | 11,059 |
| | \$ 51,794 | \$ 59,996 |

See notes to consolidated financial statements on pages 45–79.