Integrated Defense Systems

Jim Albaugh
Executive Vice President, The Boeing Company
President and CEO, Integrated Defense Systems

May 23, 2007
Integrated Defense Systems

- Right organization
- Validated strategy
- Solid revenue base
- Focused on cost and execution
- Manageable risk

Balanced portfolio; focused on execution

$32.4B
2006 Revenue

Support Systems
Network & Space Systems
Precision Engagement & Mobility Systems

19%
37%
44%
IDS 2006 Performance

Record revenue – $32.4B
Margins – 9.3%
Solid backlog – $75B
Outstanding performance on support and production programs

Continuing focus on execution and customer needs
# IDS 1Q 2007 Performance

## Key Performance Indicators

<table>
<thead>
<tr>
<th>Category</th>
<th>1Q07</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$7.7B</td>
<td>7% Revenue growth over 2006</td>
</tr>
<tr>
<td>Operating Earnings</td>
<td>$0.8B</td>
<td>Double digit margins</td>
</tr>
<tr>
<td>Operating Margins</td>
<td>10.2%</td>
<td>Significant milestones – FCS, ABL, FAB-T, TSAT</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Captured international business</td>
</tr>
</tbody>
</table>

*Focus on execution of large backlog*
2006 and 1Q07 IDS Video
Business Environment
DoD funding expected to decline 3% annually
DoD Investment Accounts Will be Squeezed

- Global War on Terror
- Asymmetric threats
- Regional conflicts
- Emerging peer

- Mature platforms
- Accelerated obsolescence
- War consumption
- Costly reset and repair
- Aging infrastructure

- US Political changes
- Country at war?
- Peace dividend?
- Higher scrutiny

- End-strength increases
- Costs per unit increasing
- Energy
- Medical, housing, quality of life
DoD Capability Focus Areas

Annual Investor Conference | Integrated Defense Systems

Precision Effects
- Global Force Projection
- Kinetic and Non-kinetic Effects
- Electronic Warfare

Global Mobility
- Tactical Mobility
- Strategic Lift
- Tankers

Integrated ISR
- Persistent ISR
- Global Situational Awareness
- Intelligence
- Multi-use Platforms, Systems

Integrated C3
- Interoperability
- Increased Bandwidth
- Tactical Situational Awareness
- Ad-hoc Self Forming Networks
- Information Assurance

Space Exploitation
- Redundancy against vulnerabilities
- Space Superiority
- Defensive Counter Space

Integrated Training
- Live, virtual, and constructive training
- Integrated scenario simulation

Integrated Logistics
- Supply Chain Management
- Performance Based Logistics
- Factory to foxhole

Customers facing difficult investment choices
IDS Organized Around Markets & Capabilities

Annual Investor Conference | Integrated Defense Systems

- **Precision Effects**
  - Precision Engagement & Mobility
  - John Lockard
  - Weapons
  - AWACS
  - GMD
  - ABL

- **Global Mobility**
  - Network & Space Systems
  - Roger Krone
  - C-17
  - CH-47
  - Satellites
  - Sea Launch

- **Integrated ISR**
  - Network & Space Systems
  - Roger Krone
  - F-15
  - F-18
  - JPSS
  - F-18

- **Integrated C3**
  - Network & Space Systems
  - Roger Krone
  - F-15
  - F-18
  - JTRS

- **Space Exploitation**
  - Network & Space Systems
  - Roger Krone
  - N-UCAS
  - P-8A
  - Sea Launch
  - Shuttle

- **Integrated Logistics**
  - Support Systems
  - Pat Finneran
  - Maintenance, Modifications & Upgrades
  - Training Systems and Services
  - C-17 GSP

- **Integrated Training**
  - Support Systems
  - Pat Finneran
  - Training Systems and Services
  - C-17 GSP

Copyright © 2006 Boeing. All rights reserved.
Environmental Summary

- Increasing, multi-dimensional threats
- Moderating and reprioritized DoD budget
- Balancing readiness, reset, end strength and modernization increasing focus on affordability
- Limited new starts
- Financially strong, aggressive competitors
IDS Strategic Focus

- Keep programs sold and extend core business - focus on execution
- Shape and capture major unawarded program opportunities
- Increase international focus
- Expand presence in attractive adjacencies and select capabilities

Drive affordability to reduce cost and improve competitiveness
Productivity & Execution – Go Hand in Hand

Productivity & Execution

Productivity

Efficiency

Sustained Cost Reduction

Improved Competitiveness

New Business

Initiatives

Execution

Effectiveness

Kept Promises

Increased Earnings/Margins

Repeat Customers

Lessons Learned

Both required for long-term growth

Copyright © 2006 Boeing. All rights reserved.
Instantiating a Culture of Execution and Productivity

Boeing Leadership Meeting

IDS Leadership Meeting
(All IDS E-Series Leaders)

All Program Manager Meeting

All Engineering Leadership Meeting

Leadership Excellence

Leadership Attributes

Program Management Best Practices

Functional Excellence

Cost Structure

Non-advocate Reviews

Supplier Management & Quality

Systems Engineering

Employee Involvement

Copyright © 2006 Boeing. All rights reserved.
Productivity is Paying Off

**F/A-18**
- F/A-18 assembly line converted to pulsed moving line
- 55% reduction in cycle time
- 90% reduction in defects

**C-17**
- 157K square ft reduction in manufacturing area
- 20% reduction in aircraft cycle time
- 17% savings on work in process
- 50% increase in inventory turns

**Satellite Development Center**
- 40% increase in on-time engineering
- 65% reduction in rework
- 85% reduction in quality defects

**Facility Consolidation**
- 1.7M square feet reduction
- Vacating leased facilities

**Overhead Reduction**
- $100M reduction in overhead in 2006
Several Key Opportunities in 2007:

- CSAR-X
- USAF Tanker
- N-UCAS
- ARES
- Proprietary
- TSAT
- GPS-III
- JTRS-AMF
- BAMS

Over $100B in opportunities
International Focus

Growing International demand with most attractive opportunities in the Middle East and Asia

Saudi Arabia
F-15/JDAM
Apache
AWACS
Support Services

South Korea
F-15K
Apache, Chinook
767 Tanker

Japan
FX (F/A-18 ; F-15)
Apache, Chinook
Satellites
767 Tanker

Singapore
F-15
Apache, Chinook
AEW&C

India
F/A-18
P-8
Chinook

Other Middle East
AEW&C
Satellites
C-17
F/A-18
Rotorcraft

Australia
F/A-18
Chinook
C-17
P-8

Growing International demand with most attractive opportunities in the Middle East and Asia
Integrated Defense Systems

- 2007 revenue ~$31.0B
- 2008 revenue ~ $32-$33B
- 2007 margins ~11%
- 2008 margins ~11%

Focused on execution and financial performance
Market stability with continued strong margins

**Precision Engagement and Mobility Systems**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$14.4B</td>
<td>$13.5B</td>
</tr>
<tr>
<td>**Margins *</td>
<td>13.9%</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

* Excludes 2006 AEW&C charges

**Execute**
- F/A-18E/F and EA-18G
- C-17
- F-15 and F-22
- P-8A (Poseidon)
- AWACS & AEW&C
- Apache, Chinook
- V-22
- JDAM, Small Diameter Bomb

**Capture**
- CSAR-X
- USAF Tankers
- N-UCAS
- C-17 Follow on
- International Fighters
- Joint Cargo Aircraft (JCA)
- Future Long Range Strike
Network and Space Systems

**Execute**
- Future Combat System
- Ground-based Midcourse Defense
- Proprietary
- Joint Tactical Radio – Ground Mobile Radio
- Military and Commercial Satellites
- SBInet
- Space Shuttle, International Space Station

**Capture**
- Transformational Satellite Communication System
- Joint Tactical Radio – Airborne Maritime and Fixed Station
- Proprietary
- GPS III
- ARES
- Commercial Satellites

**Significant opportunities with improving margins**

Based on 2006 revenues (including ULA Joint Venture)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$12.0B</td>
<td>$11.0B</td>
</tr>
<tr>
<td>Margins</td>
<td>8.0%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>
Support Systems

Based on 2006 revenues

<table>
<thead>
<tr>
<th>2006</th>
<th>2007E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$6.1B</td>
</tr>
<tr>
<td>Margins</td>
<td>13.7%</td>
</tr>
</tbody>
</table>

**Executive**
- F/A-18 Performance Based Logistics
- C-17 Performance Based Logistics
- Rotorcraft Support
- UK Through Life Customer Support (Chinook)
- KC-135 Program Depot Maintenance
- C-130 Avionics Modernization Program
- VIP Modifications and Support
- Training Systems

**Capture**
- C-17 GSP follow-on
- V-22 support
- Expand Performance Based Logistics and Depot Partnerships with USG
- KC-135 re-compete
- KC-10 re-compete
- Expand International support

**Growth opportunities with continued strong margins**
Summary

✓ Right strategy
✓ Right leadership team
✓ Right organization

Strong performance…focused on execution and growth opportunities