



# Integrated Defense Systems

**Jim Albaugh**

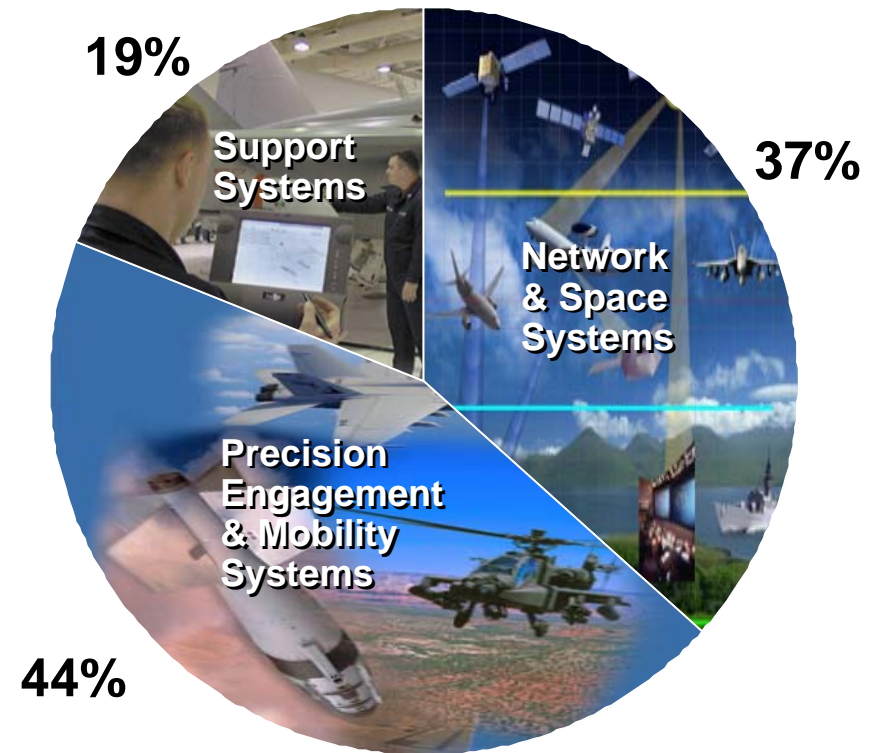
Executive Vice President, The Boeing Company  
President and CEO, Integrated Defense Systems

May 23, 2007

# Integrated Defense Systems

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



**\$32.4B**  
2006 Revenue

*Balanced portfolio; focused on execution*

# IDS 2006 Performance

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2006

Revenue	\$32.4B
Operating Earnings	\$3.0B
Operating Margins	9.3%

- 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

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1Q07

Revenue	\$7.7B
Operating Earnings	\$0.8B
Operating Margins	10.2%

- 7% Revenue growth over 2006
- Double digit margins
- Significant milestones – FCS, ABL, FAB-T, TSAT
- Captured international business

*Focus on execution of large backlog*

# 2006 and 1Q07 IDS Video

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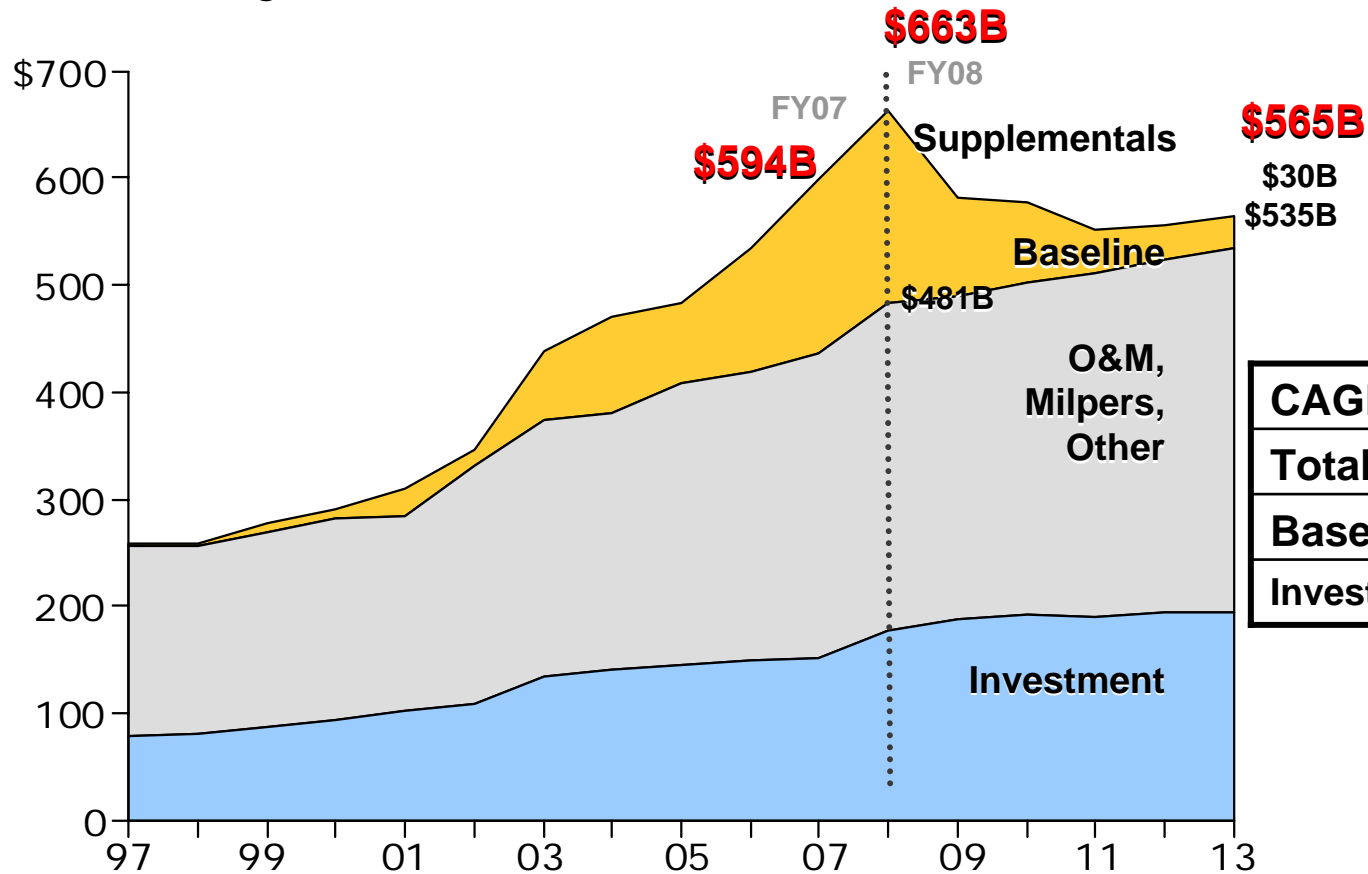
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# Business Environment

# U.S. Defense Budget

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Defense Budget \$B



CAGR	02-08	08-13
Total	11.5%	-3.1%
Baseline	6.5%	2.0%
Investment	8.3%	1.8%

*DoD funding expected to decline 3% annually*

# DoD Investment Accounts Will be Squeezed

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

Full Spectrum  
Threat

Recap/  
Reset

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

DoD  
Investment  
Accounts

Less  
Funding

Higher  
Costs

- 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

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## ***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

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**Precision Effects**

**Precision Engagement & Mobility**

**John Lockard**



**Integrated ISR**

**Network & Space Systems**

**Roger Krone**



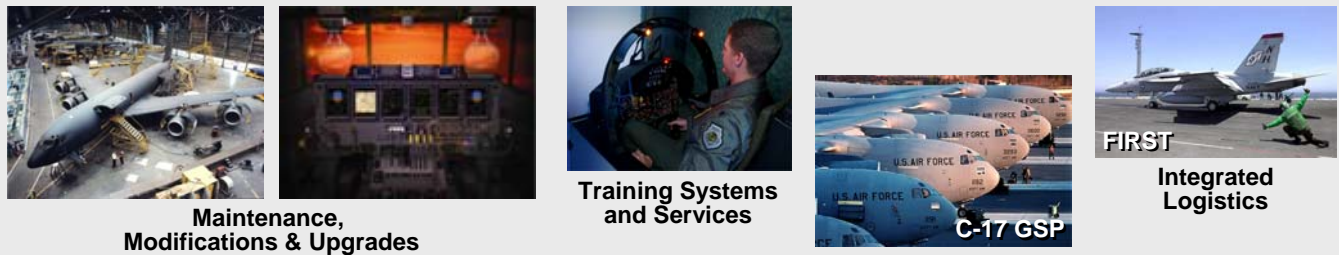
**Integrated C3**

**Space Exploitation**

**Integrated Logistics**

**Support Systems**

**Pat Finneran**



# Environmental Summary

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## Geopolitical and Threat

- Increasing, multi-dimensional threats

## Political and Budget

- Moderating and reprioritized DoD budget

## Customers

- Balancing readiness, reset, end strength and modernization increasing focus on affordability

## Markets and Competitors

- Limited new starts
- Financially strong, aggressive competitors

# IDS Strategic Focus

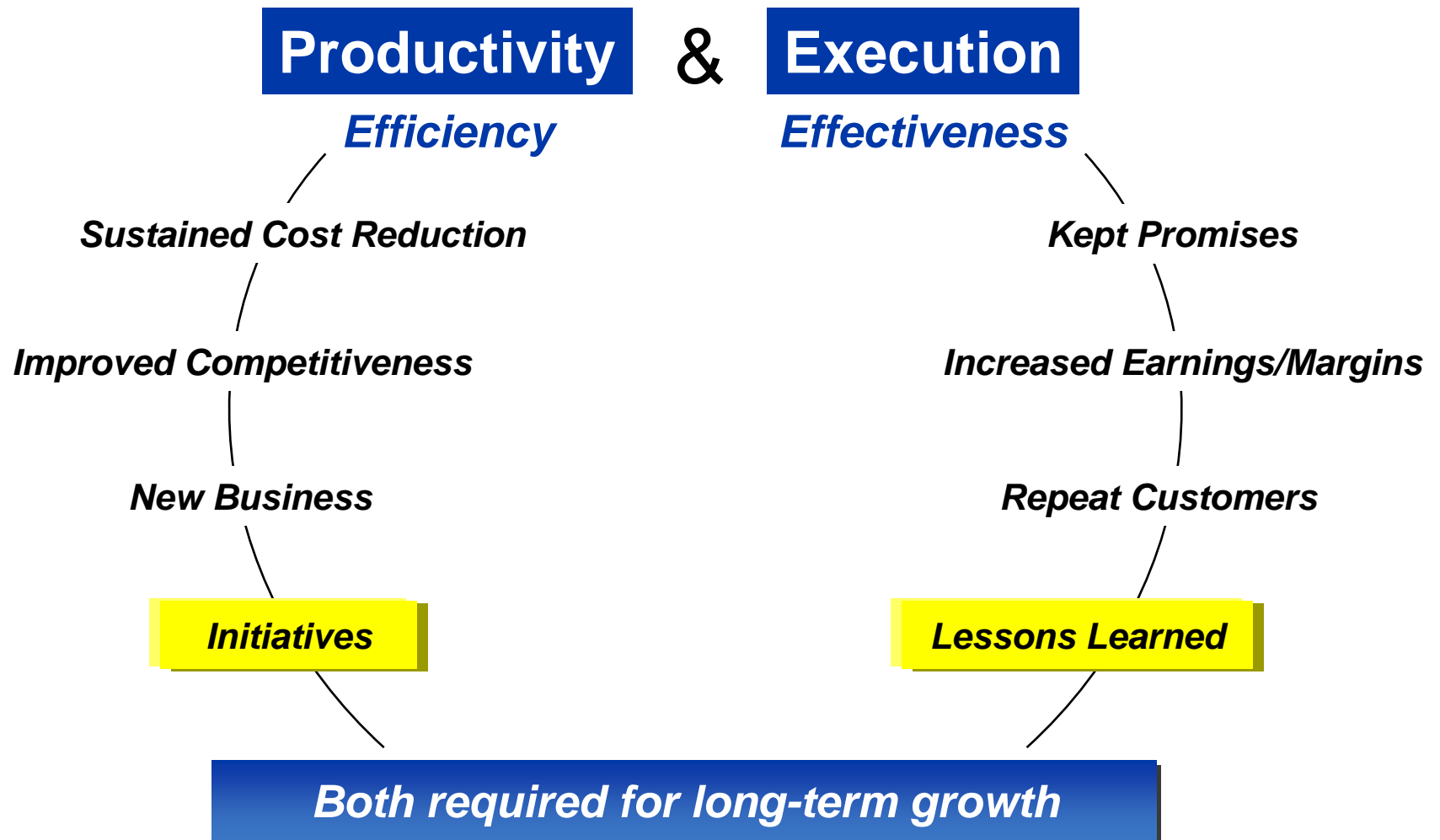
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- Keep programs sold and extend core business - focus on execution
- Shape and capture major unawarded program opportunities
- Increase international focus
- Expand presence in attractive adjacencies and select capabilities

***Drive affordability to reduce cost and improve competitiveness***

# Productivity & Execution – Go Hand in Hand

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# Instantiating a Culture of Execution and Productivity

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Boeing Leadership Meeting

IDS Leadership Meeting  
(All IDS E-Series Leaders)

All Program Manager Meeting

All Engineering Leadership Meeting

Leadership Excellence

Employee Involvement



*Program Management Best Practices*

*Functional Excellence*

*Supplier Management & Quality*

*Cost Structure*

*Non-advocate Reviews*

*Systems Engineering*

*Leadership Attributes*

# Productivity is Paying Off

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## ***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

# Capture Large Unawarded Opportunities

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## *Several Key Opportunities in 2007:*

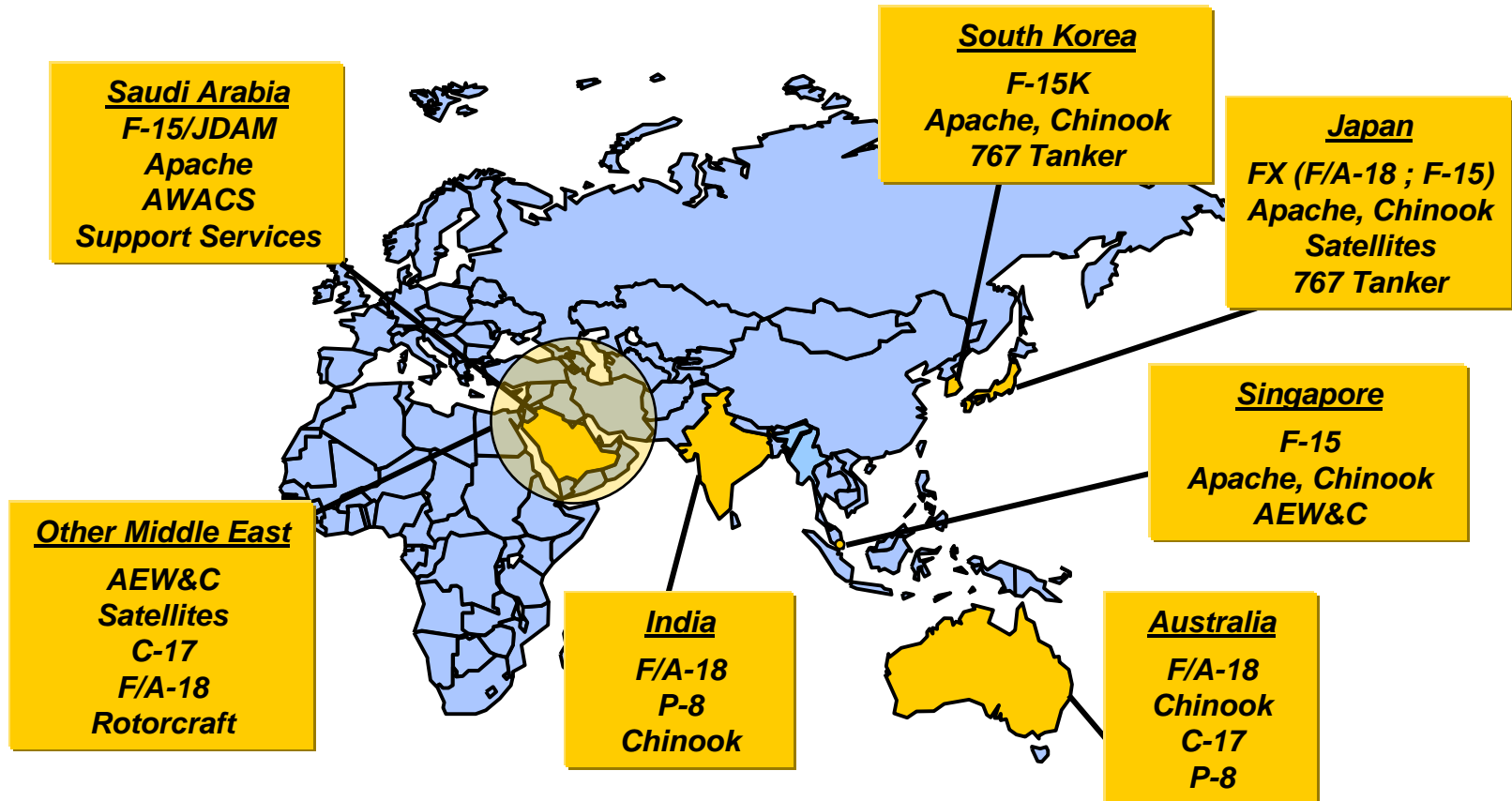
- CSAR-X
- USAF Tanker
- N-UCAS
- ARES
- Proprietary
- TSAT
- GPS-III
- JTRS-AMF
- BAMS

*Over \$100B in opportunities*



# International Focus

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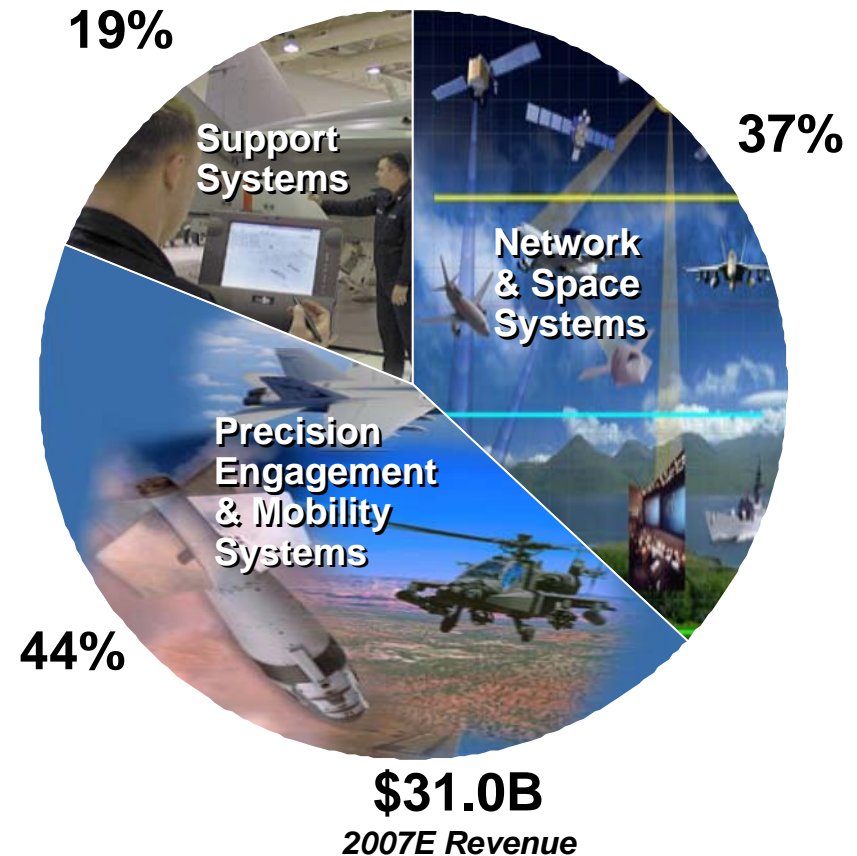


**Growing International demand with most attractive opportunities in the Middle East and Asia**

# Integrated Defense Systems

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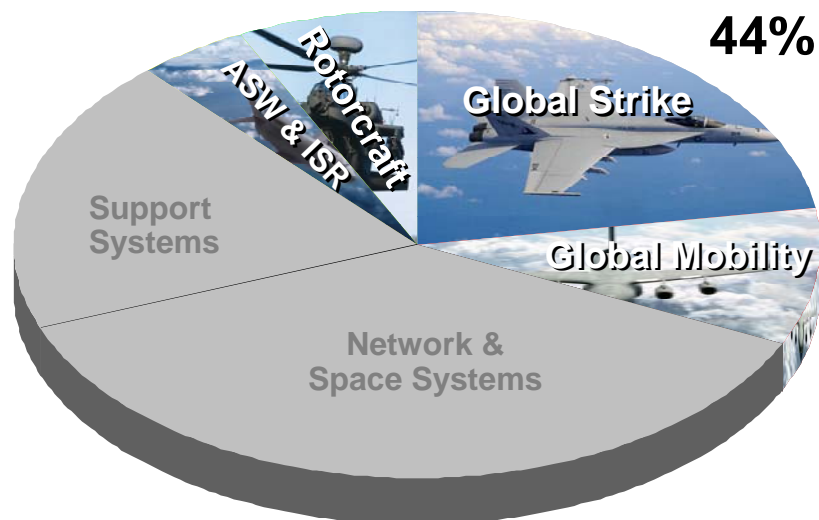
- 2007 revenue ~\$31.0B
- 2008 revenue ~ \$32-\$33B
- 2007 margins ~11%
- 2008 margins ~11%



*Focused on execution and financial performance*

# Precision Engagement and Mobility Systems

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*Based on 2006 revenues*

	<u>2006</u>	<u>2007E</u>
<b>Revenue</b>	<b>\$14.4B</b>	<b>\$13.5B</b>
<b>Margins *</b>	<b>13.9%</b>	<b>12.5%</b>

\* 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

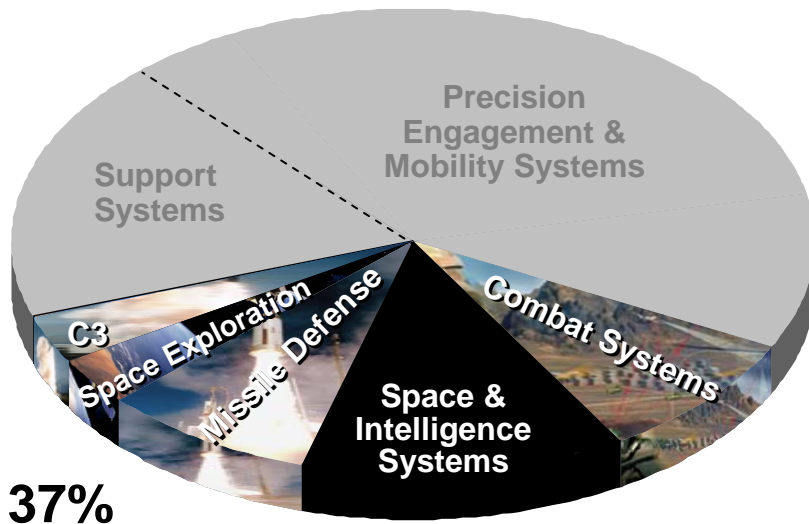
## **Capture**

- CSAR-X
- USAF Tankers
- N-UCAS
- C-17 Follow on
- International Fighters
- Joint Cargo Aircraft (JCA)
- Future Long Range Strike

***Market stability with continued strong margins***

# Network and Space Systems

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Based on 2006 revenues (including ULA Joint Venture)

	2006	2007E
Revenue	\$12.0B	\$11.0B
Margins	8.0%	8.0%

## 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

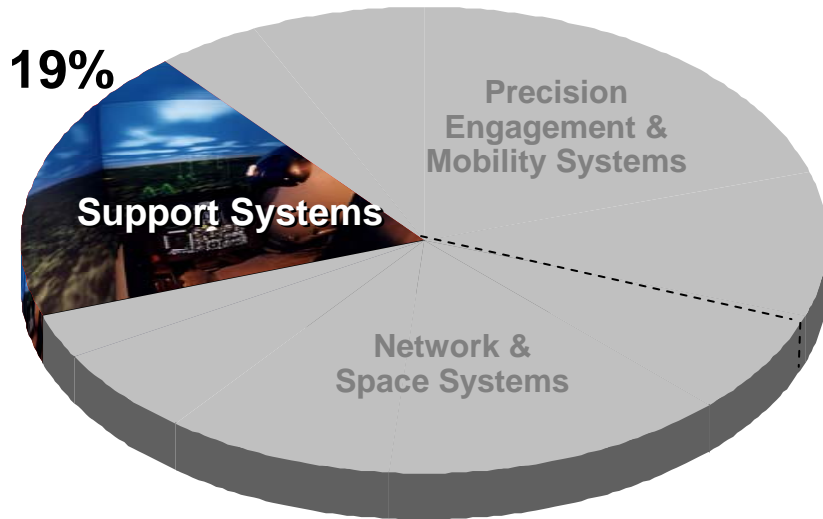
## Capture

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

**Significant opportunities with improving margins**

# Support Systems

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*Based on 2006 revenues*

	<u>2006</u>	<u>2007E</u>
Revenue	\$6.1B	\$6.5B
Margins	13.7%	13.0%

## Execute

- 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

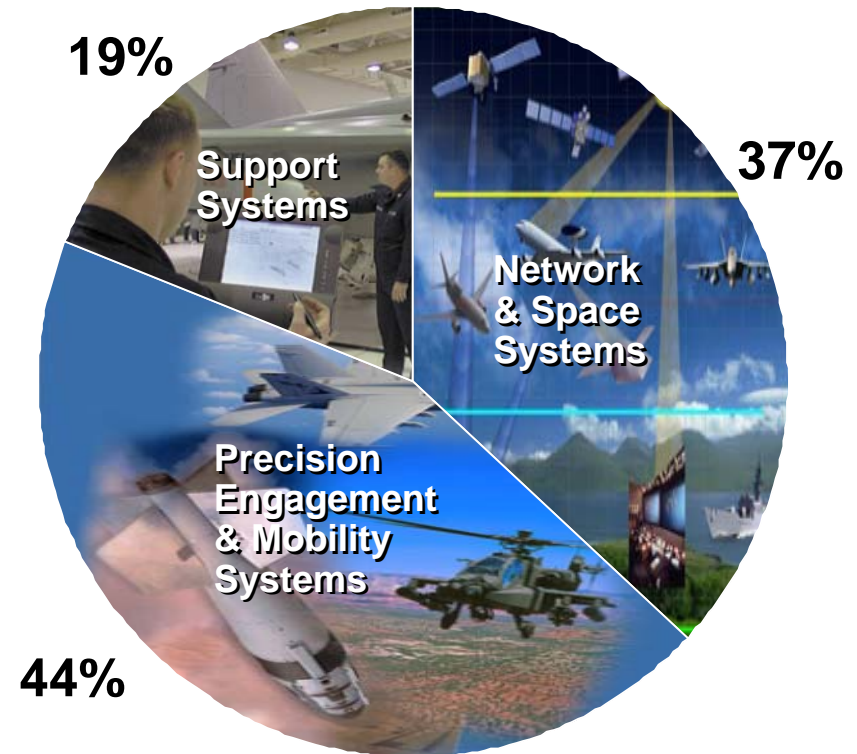
- C-17 GSP follow-on
- V-22 support
- Expand Performance Based Logistics and Depot Partnerships with USG
- KC-135 re-compete
- KC-10 re-compete
- Expand International support

***Growth opportunities with continued strong margins***

# Summary

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- ✓ Right strategy
- ✓ Right leadership team
- ✓ Right organization



**\$31.0B**

2007E Revenue

***Strong performance...focused on execution and growth opportunities***

