BOEING CO
Form 10-K
February 08, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-442

THE BOEING COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**91-0425694**
State or other jurisdiction of incorporation or organization	**(I.R.S. Employer Identification No.)**
100 N. Riverside Plaza, Chicago, IL	**60606-1596**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code(312) 544-2000

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $5 par value	New York Stock Exchange
(Title of each class)	**(Name of each exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 30, 2018, there were 575,883,680 common shares outstanding held by nonaffiliates of the registrant, and the aggregate market value of the common shares (based upon the closing price of these shares on the New York Stock Exchange) was approximately $193.2 billion.

The number of shares of the registrant’s common stock outstanding as of February 1, 2019 was 564,985,109.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference to the registrant’s definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended December 31, 2018.

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THE BOEING COMPANY
Index to the Form 10-K
For the Fiscal Year Ended December 31, 2018

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PART I
Item 1. Business
The Boeing Company, together with its subsidiaries (herein referred to as "Boeing," the "Company," "we," "us," "our"), is one of the world's major aerospace firms.
We are organized based on the products and services we offer. We operate in four reportable segments:
- Commercial Airplanes (BCA);
- Defense, Space & Security (BDS);
- Global Services (BGS);
- Boeing Capital (BCC).

Commercial Airplanes Segment
This segment develops, produces and markets commercial jet aircraft and provides fleet support services, principally to the commercial airline industry worldwide. We are a leading producer of commercial aircraft and offer a family of commercial jetliners designed to meet a broad spectrum of global passenger and cargo requirements of airlines. This family of commercial jet aircraft in production includes the 737 narrow-body model and the 747, 767, 777 and 787 wide-body models. Development continues on certain 737 MAX derivatives and the 777X program.
Defense, Space & Security Segment
This segment is engaged in the research, development, production and modification of manned and unmanned military aircraft and weapons systems for strike, surveillance and mobility, including fighter and trainer aircraft; vertical lift, including rotorcraft and tilt-rotor aircraft; and commercial derivative aircraft, including anti-submarine and tanker aircraft. In addition, this segment is engaged in the research, development, production and modification of the following products and related services: strategic defense and intelligence systems, including strategic missile and defense systems, command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR), cyber and information solutions, and intelligence systems; satellite systems, including government and commercial satellites and space exploration.
BDS' primary customer is the United States Department of Defense (U.S. DoD). Revenues from the U.S. DoD, including foreign military sales through the U.S. government, accounted for approximately 86% of its 2018 revenues. Other significant BDS customers include the National Aeronautics and Space Administration (NASA) and customers in international defense, civil and commercial satellite markets.
This segment's primary products include the following fixed-wing military aircraft: F/A-18E/F Super Hornet, F-15 Strike Eagle, P-8 programs, KC-46A Tanker, and T-X Trainer. This segment produces rotorcraft and rotary-wing programs, such as CH-47 Chinook, AH-64 Apache, and V-22 Osprey. In addition, this segment's products include space and missile systems including: government and commercial satellites, the International Space Station, Commercial Crew, missile defense and weapons programs, and Joint Direct Attack Munition, as well as the United Launch Alliance joint venture.
Global Services Segment
This segment provides services to our commercial and defense customers worldwide. BGS sustains aerospace platforms and systems with a full spectrum of products and services, including supply chain and logistics management, engineering, maintenance and modifications, upgrades and conversions, spare

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parts, pilot and maintenance training systems and services, technical and maintenance documents, and data analytics and digital services.

Boeing Capital Segment

BCC seeks to ensure that Boeing customers have the financing they need to buy and take delivery of their Boeing product and manages overall financing exposure. BCC’s portfolio consists of equipment under operating leases, finance leases, notes and other receivables, assets held for sale or re-lease and investments.

Intellectual Property

We own numerous patents and have licenses for the use of patents owned by others, which relate to our products and their manufacture. In addition to owning a large portfolio of intellectual property, we also license intellectual property to and from third parties. For example, the U.S. government has licenses in our patents that are developed in performance of government contracts, and it may use or authorize others to use the inventions covered by such patents for government purposes. Unpatented research, development and engineering skills, as well as certain trademarks, trade secrets, and other intellectual property rights, also make an important contribution to our business. While our intellectual property rights in the aggregate are important to the operation of each of our businesses, we do not believe that our business would be materially affected by the expiration of any particular intellectual property right or termination of any particular intellectual property patent license agreement.

Employees

Total workforce level at December 31, 2018 was approximately 153,000. As of December 31, 2018, our principal collective bargaining agreements were with the following unions:

Union	Percent of our Employees Represented	Status of the Agreements with Major Union
The International Association of Machinists and Aerospace Workers (IAM)	22%	We have two major agreements; one expiring in June 2022 and one in September 2024.
The Society of Professional Engineering Employees in Aerospace (SPEEA)	11%	We have two major agreements expiring in October 2022.
The United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)	1%	We have one major agreement expiring in October 2022.

Competition

The commercial jet aircraft market and the airline industry remain extremely competitive. We face aggressive international competitors who are intent on increasing their market share, such as Airbus and other entrants from Russia, China and Japan. We are focused on improving our processes and continuing cost reduction efforts. We intend to continue to compete with other airplane manufacturers by providing customers with greater value products.

BDS faces strong competition in all market segments, primarily from Lockheed Martin Corporation, Northrop Grumman Corporation, Raytheon Company, General Dynamics Corporation and SpaceX. Non-U.S. companies such as BAE Systems and Airbus Group continue to build a strategic presence in the U.S.

market by strengthening their North American operations and partnering with U.S. defense companies. In addition, certain competitors have occasionally formed teams with other competitors to address specific customer requirements. BDS expects the trend of strong competition to continue into 2019.

The commercial and defense services market is an extremely challenging landscape made up of many of the same strong U.S. and non-U.S. competitors facing BCA and BDS along with other competitors in those markets. BGS leverages our extensive services network offering products and services which span the life cycle of our defense and commercial airplane programs: training, fleet services and logistics, maintenance and engineering, modifications and upgrades - as well as the daily cycle of gate-to-gate operations. BGS expects the market to remain highly competitive in 2019, and intends to grow market share by leveraging a high level of customer satisfaction and productivity.

Regulatory Matters

Our businesses are heavily regulated in most of our markets. We deal with numerous U.S. government agencies and entities, including but not limited to all of the branches of the U.S. military, NASA, the Federal Aviation Administration (FAA) and the Department of Homeland Security. Similar government authorities exist in our non-U.S. markets.

Government Contracts. The U.S. government, and other governments, may terminate any of our government contracts at their convenience, as well as for default based on our failure to meet specified performance requirements. If any of our U.S. government contracts were to be terminated for convenience, we generally would be entitled to receive payment for work completed and allowable termination or cancellation costs. If any of our government contracts were to be terminated for default, generally the U.S. government would pay only for the work that has been accepted and could require us to pay the difference between the original contract price and the cost to re-procure the contract items, net of the work accepted from the original contract. The U.S. government can also hold us liable for damages resulting from the default.

Commercial Aircraft. In the U.S., our commercial aircraft products are required to comply with FAA regulations governing production and quality systems, airworthiness and installation approvals, repair procedures and continuing operational safety. Outside the U.S., similar requirements exist for airworthiness, installation and operational approvals. These requirements are generally administered by the national aviation authorities of each country and, in the case of Europe, coordinated by the European Joint Aviation Authorities.

Environmental. We are subject to various federal, state, local and non-U.S. laws and regulations relating to environmental protection, including the discharge, treatment, storage, disposal and remediation of hazardous substances and wastes. We continually assess our compliance status and management of environmental matters to ensure our operations are in compliance with all applicable environmental laws and regulations. Investigation, remediation, and operation and maintenance costs associated with environmental compliance and management of sites are a normal, recurring part of our operations. These costs often are allowable costs under our contracts with the U.S. government. It is reasonably possible that costs incurred to ensure continued environmental compliance could have a material impact on our results of operations, financial condition or cash flows if additional work requirements or more stringent clean-up standards are imposed by regulators, new areas of soil, air and groundwater contamination are discovered and/or expansions of work scope are prompted by the results of investigations.

A Potentially Responsible Party (PRP) has joint and several liability under existing U.S. environmental laws. Where we have been designated a PRP by the Environmental Protection Agency or a state environmental agency, we are potentially liable to the government or third parties for the full cost of remediating contamination at our facilities or former facilities or at third-party sites. If we were required to fully fund the remediation of a site for which we were originally assigned a partial share, the statutory

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framework would allow us to pursue rights to contribution from other PRPs. For additional information relating to environmental contingencies, see Note 14 to our Consolidated Financial Statements.

Non-U.S. Sales. Our non-U.S. sales are subject to both U.S. and non-U.S. governmental regulations and procurement policies and practices, including regulations relating to import-export control, tariffs, investment, exchange controls, anti-corruption, and repatriation of earnings. Non-U.S. sales are also subject to varying currency, political and economic risks.

Raw Materials, Parts, and Subassemblies

We are highly dependent on the availability of essential materials, parts and subassemblies from our suppliers and subcontractors. The most important raw materials required for our aerospace products are aluminum (sheet, plate, forgings and extrusions), titanium (sheet, plate, forgings and extrusions) and composites (including carbon and boron). Although alternative sources generally exist for these raw materials, qualification of the sources could take a year or more. Many major components and product equipment items are procured or subcontracted on a sole-source basis with a number of companies.

Suppliers

We are dependent upon the ability of a large number of U.S. and non-U.S. suppliers and subcontractors to meet performance specifications, quality standards and delivery schedules at our anticipated costs. While we maintain an extensive qualification and performance surveillance system to control risk associated with such reliance on third parties, failure of suppliers or subcontractors to meet commitments could adversely affect production schedules and program/contract profitability, thereby jeopardizing our ability to fulfill commitments to our customers. We are also dependent on the availability of energy sources, such as electricity, at affordable prices.

Seasonality

No material portion of our business is considered to be seasonal.

Executive Officers of the Registrant

See “Item 10. Directors, Executive Officers and Corporate Governance” in Part III.

Other Information

Boeing was originally incorporated in the State of Washington in 1916 and reincorporated in Delaware in 1934. Our principal executive offices are located at 100 N. Riverside Plaza, Chicago, Illinois 60606 and our telephone number is (312) 544-2000.

General information about us can be found at www.boeing.com. The information contained on or connected to our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with the Securities and Exchange Commission (SEC). Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with, or furnish them to, the SEC. The SEC maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including Boeing.

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Forward-Looking Statements

This report, as well as our annual report to shareholders, quarterly reports, and other filings we make with the SEC, press and earnings releases and other written and oral communications, contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “may,” “should,” “expects,” “intends,” “projects,” “plans,” “believes,” “estimates,” “targets,” “anticipates” and similar expressi generally identify these forward-looking statements. Examples of forward-looking statements include statements relating to our future financial condition and operating results, as well as any other statement that does not directly relate to any historical or current fact.

Forward-looking statements are based on expectations and assumptions that we believe to be reasonable when made, but that may not prove to be accurate. These statements are not guarantees and are subject to risks, uncertainties and changes in circumstances that are difficult to predict. Many factors, including those set forth in the “Risk Factors” section below and other important factors disclosed in this report and from time to time in our other filings with the SEC, could cause actual results to differ materially and adversely from these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we assume no obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise, except as required by law.

Item 1A. Risk Factors

An investment in our common stock or debt securities involves risks and uncertainties and our actual results and future trends may differ materially from our past or projected future performance. We urge investors to consider carefully the risk factors described below in evaluating the information contained in this report.

Our Commercial Airplanes and Global Services businesses depend heavily on commercial airlines, and are subject to unique risks.

Market conditions have a significant impact on demand for our commercial aircraft and related services. The commercial aircraft market is predominantly driven by long-term trends in airline passenger and cargo traffic. The principal factors underlying long-term traffic growth are sustained economic growth and political stability both in developed and emerging markets. Demand for our commercial aircraft is further influenced by airline profitability, availability of aircraft financing, world trade policies, government-to-government relations, technological advances, price and other competitive factors, fuel prices, terrorism, epidemics and environmental regulations. Traditionally, the airline industry has been cyclical and very competitive and has experienced significant profit swings and constant challenges to be more cost competitive. In addition, availability of financing to non-U.S. customers depends in part on the Export-Import Bank of the United States being fully operational. Significant deterioration in the global economic environment, the airline industry generally, or the financial stability of one or more of our major customers could result in fewer new orders for aircraft or services, or could cause customers to seek to postpone or cancel contractual orders and/or payments to us, which could result in lower revenues, profitability and cash flows and a reduction in our contractual backlog. In addition, because our commercial aircraft backlog consists of aircraft scheduled for delivery over a period of several years, any of these macroeconomic, industry or customer impacts could unexpectedly affect deliveries over a long period.

We enter into firm fixed-price aircraft sales contracts with indexed price escalation clauses which could subject us to losses if we have cost overruns or if increases in our costs exceed the applicable escalation rate. Commercial aircraft sales contracts are often entered into years before the aircraft are delivered. In order to help account for economic fluctuations between the contract date and delivery date, aircraft pricing generally consists of a fixed amount as modified by price escalation formulas derived from labor, commodity and other price indices. Our revenue estimates are based on current expectations with respect to these escalation formulas, but the actual escalation amounts are outside of our control. Escalation factors can

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fluctuate significantly from period to period. Changes in escalation amounts can significantly impact revenues and operating margins in our Commercial Airplanes business.

We derive a significant portion of our revenues from a limited number of commercial airlines. We can make no assurance that any customer will exercise purchase options, fulfill existing purchase commitments or purchase additional products or services from us. In addition, fleet decisions, airline consolidations or financial challenges involving any of our major commercial airline customers could significantly reduce our revenues and limit our opportunity to generate profits from those customers.

Our Commercial Airplanes business depends on our ability to maintain a healthy production system, achieve planned production rate targets, successfully develop new aircraft or new derivative aircraft, and meet or exceed stringent performance and reliability standards.

The commercial aircraft business is extremely complex, involving extensive coordination and integration with U.S and non-U.S. suppliers, highly-skilled labor from thousands of employees and other partners, and stringent regulatory requirements and performance and reliability standards. In addition, the introduction of new aircraft programs and/or derivatives, such as the 777X, involves increased risks associated with meeting development, testing, production and certification schedules. As a result, our ability to deliver aircraft on time, satisfy regulatory and customer requirements, and achieve or maintain, as applicable, program profitability is subject to significant risks.

We must minimize disruption caused by production changes and achieve productivity improvements in order to meet customer demand and maintain our profitability. We have plans to adjust production rates on several of our commercial aircraft programs, while at the same time engaging in significant ongoing development and production of the 777X aircraft. In addition, we continue to seek opportunities to reduce the costs of building our aircraft, including working with our suppliers to reduce supplier costs, identifying and implementing productivity improvements, and optimizing how we manage inventory. If production rate changes at any of our commercial aircraft assembly facilities are delayed or create significant disruption to our production system, or if our suppliers cannot timely deliver components to us at the cost and rates necessary to achieve our targets, we may be unable to meet delivery schedules and/or the financial performance of one or more of our programs may suffer.

Operational challenges impacting the production system for one or more of our commercial aircraft programs could result in production delays and/or failure to meet customer demand for new aircraft, either of which would negatively impact our revenues and operating margins. Our commercial aircraft production system is extremely complex. Operational issues, including delays or defects in supplier components, failure to meet internal performance plans, or delays or failures to achieve required regulatory certifications, could result in significant out-of-sequence work and increased production costs, as well as delayed deliveries to customers, impacts to aircraft performance and/or increased warranty or fleet support costs.

If our commercial airplanes fail to satisfy performance and reliability requirements, we could face additional costs and/or lower revenues. Developing and manufacturing commercial aircraft that meet or exceed our performance and reliability standards, as well as those of customers and regulatory agencies, can be costly and technologically challenging. These challenges are particularly significant with newer aircraft programs. Any failure of any Boeing aircraft to satisfy performance or reliability requirements could result in disruption to our operations, higher costs and/or lower revenues.

Changes in levels of U.S. government defense spending or overall acquisition priorities could negatively impact our financial position and results of operations.

We derive a substantial portion of our revenue from the U.S. government, primarily from defense related programs with the United States Department of Defense (U.S. DoD). Levels of U.S. defense spending are very difficult to predict and may be impacted by numerous factors such as the political environment, U.S.

foreign policy, macroeconomic conditions and the ability of the U.S. government to enact relevant legislation such as authorization and appropriations bills.

The Bipartisan Budget Act of 2018 raised preexisting spending caps for fiscal years 2018 and 2019 (FY18 and FY19). The consolidated spending bills signed into law in September 2018 provide defense funding for FY19. However, other departments and agencies, including the National Aeronautics and Space Administration (NASA) and the Federal Aviation Administration (FAA), are being temporarily funded at FY18 levels. Failure to enact a Continuing Resolution or FY19 appropriations by February 15, 2019 would result in a partial government shutdown affecting these departments and agencies. Such a shutdown could impact the Company's operations. In addition, reduced discretionary spending limits initially enacted in 2011 would take effect again in fiscal years 2020 and 2021 (FY20 and FY21) unless Congress acts to raise the spending caps or to repeal or suspend the law establishing the reduced limits. As a result, continued budget uncertainty and the risk of future sequestration cuts remain and it is likely that U.S. government discretionary spending levels will continue to be subject to pressure.

In addition, there continues to be significant uncertainty with respect to future program-level appropriations for the U.S. DoD and other government agencies (including NASA) within the overall budgetary framework described above. While the House and Senate Appropriations Committees included funding for Boeing's major programs, such as F/A-18 Super Hornet, CH-47 Chinook, AH-64 Apache, V-22 Osprey, KC-46A Pegasus Tanker and P-8 Poseidon, in their final FY19 defense appropriations, uncertainty remains about how defense budgets in FY20 and beyond will affect Boeing's programs. Future budget cuts or investment priority changes, including changes associated with the authorizations and appropriations process could result in reductions, cancellations, and/or delays of existing contracts or programs. Any of these impacts could have a material effect on the results of the Company's operations, financial position and/or cash flows.

In addition, as a result of the significant ongoing uncertainty with respect to both U.S. defense spending levels and the nature of the threat environment, we expect the U.S. DoD to continue to emphasize cost-cutting and other efficiency initiatives in its procurement processes. If we can no longer adjust successfully to these changing acquisition priorities and/or fail to meet affordability targets set by the U.S. DoD customer, our revenues and market share would be further impacted.

We conduct a significant portion of our business pursuant to U.S. government contracts, which are subject to unique risks.

In 2018, 31% of our revenues were earned pursuant to U.S. government contracts, which include foreign military sales (FMS) through the U.S. government. Business conducted pursuant to such contracts is subject to extensive procurement regulations and other unique risks.

Our sales to the U.S. government are subject to extensive procurement regulations, and changes to those regulations could increase our costs. New procurement regulations, or changes to existing requirements, could increase our compliance costs or otherwise have a material impact on the operating margins of our BDS and BGS businesses. These requirements may result in increased compliance costs, and we could be subject to additional costs in the form of withheld payments and/or reduced future business if we fail to comply with these requirements in the future. Compliance costs attributable to current and potential future procurement regulations such as these could negatively impact our financial condition and operating results.

The U.S. government may modify, curtail or terminate one or more of our contracts. The U.S. government contracting party may modify, curtail or terminate its contracts and subcontracts with us, without prior notice and either at its convenience or for default based on performance. In addition, funding pursuant to our U.S. government contracts may be reduced or withheld as part of the U.S. Congressional appropriations process due to fiscal constraints, changes in U.S. national security strategy and/or priorities or other

reasons. Further uncertainty with respect to ongoing programs could also result in the event that the U.S. government finances its operations through temporary funding measures such as “continuing resolutions” rather than full-year appropriations. Any loss or anticipated loss or reduction of expected funding and/or modification, curtailment, or termination of one or more large programs could have a material adverse effect on our earnings, cash flow and/or financial position.

We are subject to U.S. government inquiries and investigations, including periodic audits of costs that we determine are reimbursable under U.S. government contracts. U.S. government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency, routinely audit government contractors. These agencies review our performance under contracts, cost structure and compliance with applicable laws, regulations, and standards, as well as the adequacy of and our compliance with our internal control systems and policies. Any costs found to be misclassified or inaccurately allocated to a specific contract will be deemed non-reimbursable, and to the extent already reimbursed, must be refunded. Any inadequacies in our systems and policies could result in withholds on billed receivables, penalties and reduced future business. Furthermore, if any audit, inquiry or investigation uncovers improper or illegal activities, we could be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with the U.S. government. We also could suffer reputational harm if allegations of impropriety were made against us, even if such allegations are later determined to be false.

We enter into fixed-price contracts which could subject us to losses if we have cost overruns.

Our BDS and BGS defense businesses generated approximately 65% and 77% of their 2018 revenues from fixed-price contracts. While fixed-price contracts enable us to benefit from performance improvements, cost reductions and efficiencies, they also subject us to the risk of reduced margins or incurring losses if we are unable to achieve estimated costs and revenues. If our estimated costs exceed our estimated price, we recognize reach-forward losses which can significantly affect our reported results. For example, during 2018, we recorded reach-forward losses totaling $736 million on the USAF KC-46A Tanker contract primarily reflecting higher estimated costs associated with certification, testing and change incorporation on aircraft, as well as higher than expected effort to meet customer requirements in order to support delivery of the initial aircraft. In addition, in 2018, in connection with winning the T-X and MQ-25 Stingray competitions, we recorded a loss of $400 million associated with options for 346 T-X Trainer aircraft and a loss of $291 million related to the MQ-25 Stingray Engineering, Manufacturing and Development (EMD) contract. The long term nature of many of our contracts makes the process of estimating costs and revenues on fixed-price contracts inherently risky. Fixed-price contracts often contain price incentives and penalties tied to performance which can be difficult to estimate and have significant impacts on margins. In addition, some of our contracts have specific provisions relating to cost, schedule and performance.

Fixed-price development contracts are generally subject to more uncertainty than fixed-price production contracts. Many of these development programs have highly complex designs. In addition, technical or quality issues that arise during development could lead to schedule delays and higher costs to complete, which could result in a material charge or otherwise adversely affect our financial condition. Examples of significant BDS fixed-price development contracts include Commercial Crew, Saudi F-15, USAF KC-46A Tanker, T-X Trainer, VC-25B Presidential Aircraft, MQ-25 Stingray, and commercial and military satellites.

We enter into cost-type contracts which also carry risks.

Our BDS and BGS defense businesses generated approximately 35% and 23% of their 2018 revenues from cost-type contracting arrangements. Some of these are development programs that have complex design and technical challenges. These cost-type programs typically have award or incentive fees that are subject to uncertainty and may be earned over extended periods. In these cases the associated financial risks are primarily in reduced fees, lower profit rates or program cancellation if cost, schedule or technical

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performance issues arise. Programs whose contracts are primarily cost-type include GMD, Proprietary and SLS programs.

We enter into contracts that include in-orbit incentive payments that subject us to risks.

Contracts in the commercial satellite industry and certain government satellite contracts include in-orbit incentive payments. These in-orbit payments may be paid over time after final satellite acceptance or paid in full prior to final satellite acceptance. In both cases, the in-orbit incentive payment is at risk if the satellite does not perform to specifications for up to 15 years after acceptance. The net present value of in-orbit incentive fees we ultimately expect to realize is recognized as revenue in the construction period. If the satellite fails to meet contractual performance criteria, customers will not be obligated to continue making in-orbit payments and/or we may be required to provide refunds to the customer and incur significant charges.

Our ability to deliver products and services that satisfy customer requirements is heavily dependent on the performance and financial stability of our subcontractors and suppliers, as well as on the availability of raw materials and other components.

We rely on other companies including U.S. and non-U.S. subcontractors and suppliers to provide and produce raw materials, integrated components and sub-assemblies, and production commodities and to perform some of the services that we provide to our customers. If one or more of our suppliers or subcontractors experiences financial difficulties, delivery delays or other performance problems, we may be unable to meet commitments to our customers or incur additional costs. For example, the 737 program experienced supply chain disruptions in 2018 that impacted the timing of certain deliveries during the year. In addition, if one or more of the raw materials on which we depend (such as aluminum, titanium or composites) becomes unavailable or is available only at very high prices, we may be unable to deliver one or more of our products in a timely fashion or at budgeted costs. In some instances, we depend upon a single source of supply. Any service disruption from one of these suppliers, either due to circumstances beyond the supplier’s control, such as geo-political developments, or as a result of performance problems or financial difficulties, could have a material adverse effect on our ability to meet commitments to our customers or increase our operating costs.

We use estimates in accounting for many contracts and programs. Changes in our estimates could adversely affect our future financial results.

Contract and program accounting require judgment relative to assessing risks, estimating revenues and costs and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts and programs, the estimation of total revenues and cost at completion is complicated and subject to many variables. Assumptions have to be made regarding the length of time to complete the contract or program because costs also include expected increases in wages and employee benefits, material prices and allocated fixed costs. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information for us to assess anticipated performance. Suppliers’ assertions are also assessed and considered in estimating costs and profit rates. Estimates of award fees are also used in sales and profit rates based on actual and anticipated awards.

With respect to each of our commercial aircraft programs, inventoriable production costs (including overhead), program tooling and other non-recurring costs and routine warranty costs are accumulated and charged as cost of sales by program instead of by individual units or contracts. A program consists of the estimated number of units (accounting quantity) of a product to be produced in a continuing, long-term production effort for delivery under existing and anticipated contracts limited by the ability to make reasonably dependable estimates. To establish the relationship of sales to cost of sales, program accounting requires estimates of (a) the number of units to be produced and sold in a program, (b) the period over which the units can reasonably be expected to be produced and (c) the units' expected sales prices, production costs, program tooling and other non-recurring costs, and routine warranty costs for the total program. Several factors determine accounting quantity, including firm orders, letters of intent from prospective customers and market studies. Changes to customer or model mix, production costs and rates, learning curve, changes to price escalation indices, costs of derivative aircraft, supplier performance, customer and supplier negotiations/settlements, supplier claims and/or certification issues can impact these estimates. Any such change in estimates relating to program accounting may adversely affect future financial performance.

Because of the significance of the judgments and estimation processes described above, materially different sales and profit amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect future period financial performance. For additional information on our accounting policies for recognizing sales and profits, see our discussion under "Management's Discussion and Analysis – Critical Accounting Policies – Contract Accounting/Program Accounting" on pages 43 – 44 and Note 1 to our Consolidated Financial Statements on pages 54 – 66 of this Form 10-K.

Competition within our markets and with respect to the products we sell may reduce our future contracts and sales.

The markets in which we operate are highly competitive and one or more of our competitors may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas. In our Commercial Airplanes business, we anticipate increasing competition among non-U.S. aircraft manufacturers of commercial jet aircraft. In our BDS business, we anticipate that the effects of defense industry consolidation, fewer large and new programs and new priorities, including near and long-term cost competitiveness, of our U.S. DoD and non-U.S. customers will intensify competition for many of our BDS products. Our BGS segment faces competition from many of the same strong U.S. and non-U.S. competitors facing BCA and BDS. Furthermore, we are facing increased international competition and cross-border consolidation of competition. There can be no assurance that we will be able to compete successfully against our current or future competitors or that the competitive pressures we face will not result in reduced revenues and market share.

We derive a significant portion of our revenues from non-U.S. sales and are subject to the risks of doing business in other countries.

In 2018, non-U.S. customers, which includes FMS, accounted for approximately 56% of our revenues. We expect that non-U.S. sales will continue to account for a significant portion of our revenues for the foreseeable future. As a result, we are subject to risks of doing business internationally, including:

- changes in regulatory requirements;
- U.S. and non-U.S. government policies, including requirements to expend a portion of program funds locally and governmental industrial cooperation or participation requirements;
- fluctuations in international currency exchange rates;
- volatility in international political and economic environments and changes in non-U.S. national priorities and budgets, which can lead to delays or fluctuations in orders;
- the complexity and necessity of using non-U.S. representatives and consultants;
- the uncertainty of the ability of non-U.S. customers to finance purchases, including the availability of financing from the Export-Import Bank of the United States;
- uncertainties and restrictions concerning the availability of funding credit or guarantees;

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- imposition of domestic and international taxes, export controls, tariffs, embargoes, sanctions and other trade restrictions;
- the difficulty of management and operation of an enterprise spread over many countries;
- compliance with a variety of non-U.S. laws, as well as U.S. laws affecting the activities of U.S. companies abroad; and
- unforeseen developments and conditions, including terrorism, war, epidemics and international tensions and conflicts.

While the impact of these factors is difficult to predict, any one or more of these factors could adversely affect our operations in the future.

Unauthorized access to our or our customers' information and systems could negatively impact our business.

We face certain security threats, including threats to the confidentiality, availability and integrity of our data and systems. We maintain an extensive network of technical security controls, policy enforcement mechanisms, monitoring systems and management oversight in order to address these threats. While these measures are designed to prevent, detect and respond to unauthorized activity in our systems, certain types of attacks, including cyber-attacks, could result in significant financial or information losses and/or reputational harm. In addition, we manage information and information technology systems for certain customers. Many of these customers face similar security threats. If we cannot prevent the unauthorized access, release and/or corruption of our customers' confidential, classified or personally identifiable information, our reputation could be damaged, and/or we could face financial losses.

The outcome of litigation and of government inquiries and investigations involving our business is unpredictable and an adverse decision in any such matter could have a material effect on our financial position and results of operations.

We are involved in a number of litigation matters. These matters may divert financial and management resources that would otherwise be used to benefit our operations. No assurances can be given that the results of these matters will be favorable to us. An adverse resolution of any of these lawsuits, or future lawsuits, could have a material impact on our financial position and results of operations. In addition, we are subject to extensive regulation under the laws of the United States and its various states, as well as other jurisdictions in which we operate. As a result, we are sometimes subject to government inquiries and investigations of our business due, among other things, to our business relationships with the U.S. government, the heavily regulated nature of our industry, and in the case of environmental proceedings, our current or past ownership of certain property. Any such inquiry or investigation could potentially result in an adverse ruling against us, which could have a material impact on our financial position and results of operations.

A significant portion of our customer financing portfolio is concentrated among certain customers and in certain types of Boeing aircraft, which exposes us to concentration risks.

A significant portion of our customer financing portfolio is concentrated among certain customers and in distinct geographic regions. Our portfolio is also concentrated by varying degrees across Boeing aircraft product types, most notably 717 and 747-8 aircraft, and among customers that we believe have less than investment-grade credit. If one or more customers holding a significant portion of our portfolio assets experiences financial difficulties or otherwise defaults on or does not renew its leases with us at their expiration, and we are unable to redeploy the aircraft on reasonable terms, or if the types of aircraft that are concentrated in our portfolio suffer greater than expected declines in value, our earnings, cash flows and/or financial position could be materially adversely affected.

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We may be unable to obtain debt to fund our operations and contractual commitments at competitive rates, on commercially reasonable terms or in sufficient amounts.

We depend, in part, upon the issuance of debt to fund our operations and contractual commitments. As of December 31, 2018 and 2017, our airplane financing commitments totaled $19,462 million and $10,221 million. If we require additional funding in order to fund outstanding financing commitments or meet other business requirements, our market liquidity may not be sufficient. A number of factors could cause us to incur increased borrowing costs and to have greater difficulty accessing public and private markets for debt. These factors include disruptions or declines in the global capital markets and/or a decline in our financial performance, outlook or credit ratings. The occurrence of any or all of these events may adversely affect our ability to fund our operations and contractual or financing commitments.

We may not realize the anticipated benefits of mergers, acquisitions, joint ventures/strategic alliances or divestitures.

As part of our business strategy, we may merge with or acquire businesses and/or form joint ventures and strategic alliances. For example, in 2018 we completed the acquisition of KLX Inc., a provider of aviation parts and services. Whether we realize the anticipated benefits from these acquisitions and related activities depends, in part, upon our ability to integrate the operations of the acquired business, the performance of the underlying product and service portfolio, and the performance of the management team and other personnel of the acquired operations. Accordingly, our financial results could be adversely affected by unanticipated performance issues, legacy liabilities, transaction-related charges, amortization of expenses related to intangibles, charges for impairment of long-term assets, credit guarantees, partner performance and indemnifications. Consolidations of joint ventures could also impact our reported results of operations or financial position. While we believe that we have established appropriate and adequate procedures and processes to mitigate these risks, there is no assurance that these transactions will be successful. We also may make strategic divestitures from time to time. These transactions may result in continued financial involvement in the divested businesses, such as through guarantees or other financial arrangements, following the transaction. Nonperformance by those divested businesses could affect our future financial results through additional payment obligations, higher costs or asset write-downs.

Our insurance coverage may be inadequate to cover all significant risk exposures.

We are exposed to liabilities that are unique to the products and services we provide. We maintain insurance for certain risks and, in some circumstances, we may receive indemnification from the U.S. government. The amount of our insurance coverage may not cover all claims or liabilities and we may be forced to bear substantial costs. For example, liabilities arising from the use of certain of our products, such as aircraft technologies, missile systems, border security systems, anti-terrorism technologies, and/or air traffic management systems may not be insurable on commercially reasonable terms. While some of these products are shielded from liability within the U.S. under the SAFETY Act provisions of the 2002 Homeland Security Act, no such protection is available outside the U.S., potentially resulting in significant liabilities. The amount of insurance coverage we maintain may be inadequate to cover these or other claims or liabilities.

Business disruptions could seriously affect our future sales and financial condition or increase our costs and expenses.

Our business may be impacted by disruptions including threats to physical security, information technology or cyber-attacks or failures, damaging weather or other acts of nature and pandemics or other public health crises. Any of these disruptions could affect our internal operations or our ability to deliver products and services to our customers. Any significant production delays, or any destruction, manipulation or improper

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use of our data, information systems or networks could impact our sales, increase our expenses and/or have an adverse effect on the reputation of Boeing and of our products and services.

Some of our and our suppliers’ workforces are represented by labor unions, which may lead to work stoppages.

Approximately 54,000 employees, which constitute 35% of our total workforce, were union represented as of December 31, 2018. We experienced a work stoppage in 2008 when a labor strike halted commercial aircraft and certain BDS program production. We may experience additional work stoppages in the future, which could adversely affect our business. We cannot predict how stable our relationships, currently with 11 U.S. labor organizations and 13 non-U.S. labor organizations, will be or whether we will be able to meet the unions’ requirements without impacting our financial condition. The unions may also limit our flexibility in dealing with our workforce. Union actions at suppliers can also affect us. Work stoppages and instability in our union relationships could delay the production and/or development of our products, which could strain relationships with customers and cause a loss of revenues which would adversely affect our operations.

Substantial pension and other postretirement benefit obligations have a material impact on our earnings, shareholders’ equity and cash flows from operations, and could have significant adverse impacts in future periods.

The majority of our employees have earned benefits under defined benefit pension plans. Potential pension contributions include both mandatory amounts required under the Employee Retirement Income Security Act and discretionary contributions to improve the plans' funded status. The extent of future contributions depends heavily on market factors such as the discount rate and the actual return on plan assets. We estimate future contributions to these plans using assumptions with respect to these and other items. Changes to those assumptions could have a significant effect on future contributions as well as on our annual pension costs and/or result in a significant change to shareholders' equity. For U.S. government contracts, we allocate pension costs to individual contracts based on U.S. Cost Accounting Standards which can also affect contract profitability. We also provide other postretirement benefits to certain of our employees, consisting principally of health care coverage for eligible retirees and qualifying dependents. Our estimates of future costs associated with these benefits are also subject to assumptions, including estimates of the level of medical cost increases. For a discussion regarding how our financial statements can be affected by pension and other postretirement plan accounting policies, see “Management's Discussion and Analysis-Critical Accounting Policies-Pension Plans” on page 45 of this Form 10-K. Although Generally Accepted Accounting Principles in the United States of America (GAAP) expense and pension or other postretirement benefit contributions are not directly related, the key economic factors that affect GAAP expense would also likely affect the amount of cash or stock we would contribute to our plans.

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Our operations expose us to the risk of material environmental liabilities.

We are subject to various U.S. federal, state, local and non-U.S. laws and regulations related to environmental protection, including the discharge, treatment, storage, disposal and remediation of hazardous substances and wastes. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, as well as third-party claims for property damage or personal injury, if we were to violate or become liable under environmental laws or regulations. In some cases, we may be subject to such costs due to environmental impacts attributable to our current or past manufacturing operations or the operations of companies we have acquired. In other cases, we may become subject to such costs due to an indemnification agreement between us and a third party relating to such environmental liabilities. In addition, new laws and regulations, more stringent enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new remediation requirements could result in additional costs. For additional information relating to environmental contingencies, see Note 14 to our Consolidated Financial Statements.

Item 1B. Unresolved Staff Comments

Not applicable

Item 2. Properties

We occupied approximately 88 million square feet of floor space on December 31, 2018 for manufacturing, warehousing, engineering, administration and other productive uses, of which approximately 95% was located in the United States. The following table provides a summary of the floor space by business as of December 31, 2018:

(Square feet in thousands)	Owned	Leased	Government Owned[1]	Total
Commercial Airplanes	40,822	2,264		43,086
Defense, Space & Security	25,991	5,315		31,306
Global Services	684	8,140		8,824
Other[2]	2,499	1,777	318	4,594
Total	69,996	17,496	318	87,810

(1) Excludes rent-free space furnished by U.S. government landlord of 49 square feet.

(2) Other includes BCC, sites used for common internal services, and our Corporate Headquarters.

At December 31, 2018, we occupied in excess of 80.1 million square feet of floor space at the following major locations:

- Commercial Airplanes – Greater Seattle, WA; Greater Charleston, SC; Portland, OR; Greater Los Angeles, CA; Greater Salt Lake City, UT; Australia; and Canada
- Defense, Space & Security – Greater St. Louis, MO; Greater Los Angeles, CA; Greater Seattle, WA; Philadelphia, PA; Mesa, AZ; Huntsville, AL; Oklahoma City, OK; Heath, OH; Greater Washington, DC; and Houston, TX
- Global Services – San Antonio, TX; Greater Miami, FL; Dallas, TX; Germany; Jacksonville, FL; Greater Denver, CO; and Mesa, AZ
- Other – Chicago, IL; Greater Los Angeles, CA ; Greater Seattle, WA; Greater St. Louis, MO; and Greater Washington, DC

Most runways and taxiways that we use are located on airport properties owned by others and are used jointly with others. Our rights to use such facilities are provided for under long-term leases with municipal, county or other government authorities. In addition, the U.S. government furnishes us certain office space, installations and equipment at U.S. government bases for use in connection with various contract activities. We believe that our major properties are adequate for our present needs and, as supplemented by planned improvements and construction, expect them to remain adequate for the foreseeable future.

Item 3. Legal Proceedings

Currently, we are involved in a number of legal proceedings. For a discussion of contingencies related to legal proceedings, see Note 22 to our Consolidated Financial Statements, which is hereby incorporated by reference.

Item 4. Mine Safety Disclosures

Not applicable

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PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The principal market for our common stock is the New York Stock Exchange where it trades under the symbol BA. As of February 1, 2019, there were 104,376 shareholders of record.

Issuer Purchases of Equity Securities

The following table provides information about purchases we made during the quarter ended December 31, 2018 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

(Dollars in millions, except per share data)

	(a) Total Number of Shares Purchased[1]	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs[2]
10/1/2018 thru 10/31/2018	1,567,983	$374.79	1,560,854	$9,000
11/1/2018 thru 11/30/2018	16,910	334.84		9,000
12/1/2018 thru 12/31/2018	4,295	328.26		20,000
Total	1,589,188	$374.24	1,560,854	

(1) We purchased an aggregate of 1,560,854 shares of our common stock in the open market pursuant to our repurchase plan and 28,334 shares transferred to us from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock units during the period. We did not purchase shares in swap transactions.

(2) On December 17, 2018, we announced a new repurchase plan for up to $20 billion of common stock, replacing the plan previously authorized in 2017.

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Item 6. Selected Financial Data
Five-Year Summary (Unaudited)

(Dollars in millions, except per share data)	**2018**	2017	2016	2015 [2]	2014 [2]
Revenues	**$101,127**	$94,005	$93,496	$96,114	$90,762
Net earnings from continuing operations	**$10,460**	$8,458	$5,034	$5,176	$5,446
Basic earnings per share from continuing operations	**$18.05**	$14.03	$7.92	$7.52	$7.47
Diluted earnings per share from continuing operations	**17.85**	13.85	7.83	7.44	7.38
Dividends declared per share[1]	**7.19**	5.97	4.69	3.82	3.10
Cash and cash equivalents	**$7,637**	$8,813	$8,801	$11,302	$11,733
Short-term and other investments	**927**	1,179	1,228	750	1,359
Total assets	**117,359**	112,362	109,076	94,408	92,921
Total debt	**13,847**	11,117	9,952	9,964	9,070
Operating cash flow	**$15,322**	$13,346	$10,496	$9,363	$8,858
Total backlog	**$490,481**	$474,640	$473,492 [2]	$489,299	$502,391
Year-end workforce	**153,000**	140,800	150,500	161,400	165,500

[1] Cash dividends have been paid on common stock every year since 1942.

[2] Amounts prior to 2016, along with 2016 Backlog, do not reflect impact of the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606); ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost; ASU 2016-18 Statement of Cash Flows (Topic 230) Restricted Cash; in the first quarter of 2018. See Note 2 to our Consolidated Financial Statements for additional information.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Consolidated Results of Operations and Financial Condition
Overview

We are a global market leader in the design, development, manufacture, sale, service and support of commercial jetliners, military aircraft, satellites, missile defense, human space flight and launch systems and services. We are one of the two major manufacturers of 100+ seat airplanes for the worldwide commercial airline industry and one of the largest defense contractors in the U.S. While our principal operations are in the U.S., we conduct operations in an expanding number of countries and rely on an extensive network of non-U.S. partners, key suppliers and subcontractors.

Our strategy is centered on successful execution in healthy core businesses – Commercial Airplanes (BCA), Defense, Space & Security (BDS), and Global Services (BGS) – supplemented and supported by Boeing Capital (BCC). Taken together, these core businesses have historically generated substantial earnings and cash flow that permit us to invest in new products and services. We focus on producing the products and providing the services that the market demands, and continue to find new ways to improve efficiency and quality to provide a fair return for our shareholders. BCA is committed to being the leader in commercial aviation by offering airplanes and services that deliver superior design, efficiency and value to customers around the world. BDS integrates its resources in defense, intelligence, communications, security, space and services to deliver capability-driven solutions to customers at reduced costs. Our BDS strategy is to leverage our core businesses to capture key next-generation programs while expanding our presence in adjacent and international markets, underscored by an intense focus on growth and productivity. BGS provides support for commercial and defense through innovative, comprehensive, and cost-competitive product and service solutions. BCC facilitates, arranges, structures and provides selective financing solutions for our Boeing customers.

Consolidated Results of Operations

The following table summarizes key indicators of consolidated results of operations:

(Dollars in millions, except per share data)

Years ended December 31,	**2018**	2017	2016
Revenues	**$101,127**	$94,005	$93,496
GAAP			
Earnings from operations	**11,987**	10,344	6,527
Operating margins	**11.9 %**	11.0 %	7.0 %
Effective income tax rate	**9.9 %**	16.3 %	13.0 %
Net earnings	**$10,460**	$8,458	$5,034
Diluted earnings per share	**$17.85**	$13.85	$7.83
Non-GAAP (1)			
Core operating earnings	**$10,660**	$8,906	$5,170
Core operating margins	**10.5 %**	9.5 %	5.5 %
Core earnings per share	**$16.01**	$12.33	$6.94

(1) These measures exclude certain components of pension and other postretirement benefit expense. See page 40 - 42 for important information about these non-GAAP measures and reconciliations to the most comparable GAAP measures.

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Revenues

The following table summarizes Revenues:

(Dollars in millions)			
Years ended December 31,	**2018**	2017	2016
Commercial Airplanes	**$60,715**	$58,014	$59,378
Defense, Space & Security	**23,195**	20,561	20,180
Global Services	**17,018**	14,581	13,819
Boeing Capital	**274**	307	298
Unallocated items, eliminations and other	**(75)**	542	(179)
Total	**$101,127**	$94,005	$93,496

Revenues in 2018 increased by $7,122 million or 8% compared with 2017 due to higher revenues at BCA, BDS, and BGS. BCA revenues increased by $2,701 million due to higher 737 and 787 deliveries and favorable 737 and 787 model mix, which more than offset lower 777 and 747 deliveries. BDS revenues increased by $2,634 million primarily due to non-US contract awards for fighters, higher weapons revenue, the final C-17 aircraft sale and higher satellites revenue. BGS revenues increased by $2,437 million due to growth across our services portfolio, primarily driven by higher parts revenue including the acquisition of KLX Inc. (KLX). The increases at BCA, BDS, and BGS were partially offset by lower unallocated revenue.

Revenues in 2017 increased by $509 million or 1% compared with 2016. BDS revenues increased by $381 million primarily due to higher weapons revenue. BGS revenues increased by $762 million primarily due to higher commercial parts revenue. The increases at BDS and BGS were partially offset by lower BCA revenues, primarily due to delivery mix, with fewer twin aisle deliveries more than offsetting the impact of higher single aisle deliveries.

The changes in Unallocated items, eliminations and other in 2018, 2017 and 2016 primarily reflect the timing of eliminations for intercompany aircraft deliveries and the sale of aircraft previously leased to customers.

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Earnings From Operations

The following table summarizes Earnings from operations:

(Dollars in millions)

Years ended December 31,	**2018**	2017	2016
Commercial Airplanes	**$7,879**	$5,452	$1,981
Defense, Space & Security	**1,594**	2,193	1,678
Global Services	**2,522**	2,246	2,159
Boeing Capital	**79**	114	59
Segment Operating Profit	**12,074**	10,005	5,877
Pension FAS/CAS service cost adjustment	**1,005**	1,127	1,029
Postretirement FAS/CAS service cost adjustment	**322**	311	328
Unallocated items, eliminations and other	**(1,414)**	(1,099)	(707)
Earnings from operations (GAAP)	**$11,987**	$10,344	$6,527
FAS/CAS service cost adjustment *	**(1,327)**	(1,438)	(1,357)
Core operating earnings (Non-GAAP) **	**$10,660**	$8,906	$5,170

* The FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments.

** Core operating earnings is a Non-GAAP measure that excludes the FAS/CAS service cost adjustment. See page 40.

Earnings from operations in 2018 increased by $1,643 million compared with 2017, primarily due to higher earnings at BCA and BGS, which more than offset the decrease at BDS and the change in Unallocated items, eliminations and other. BCA earnings from operations increased by $2,427 million in 2018 due to higher revenues and improved operating margins. The increase in operating margins is primarily due to higher 787 margins, improved cost performance and favorable delivery mix. BGS earnings from operations increased by $276 million in 2018 primarily due to higher revenues, partially offset by higher period costs. BDS earnings from operations in 2018 decreased by $599 million compared with 2017 as earnings' growth from higher revenues was more than offset by charges of $691 million related to winning the T-X Trainer and MQ-25 competitions, as well as $199 million of higher KC-46A Tanker reach-forward losses.

Earnings from operations in 2017 increased by $3,817 million compared with 2016 due to higher earnings at BCA and BDS, partially offset by the change in Unallocated items, eliminations and other. BCA earnings from operations increased by $3,471 million in 2017 primarily due to lower reach-forward losses, lower research and development costs, and improved margins reflecting favorable cost performance. In 2016, BCA recorded reach-forward losses of $1,258 million on the 747 program and reclassified $1,235 million of 787 flight test aircraft inventory costs to research and development. The reclassification of flight test aircraft costs was recorded in the second quarter of 2016 as a result of our determination that two 787 flight test aircraft were no longer commercially saleable. BDS earnings from operations increased by $515 million in 2017 primarily due to lower charges on the KC-46A Tanker and Commercial Crew programs.

During 2018, 2017 and 2016, we recorded reach-forward losses on the KC-46A Tanker program. In 2018, we recorded charges of $736 million, of which $500 million was recorded at BCA, $222 million at BDS, and $14 million at BGS. During 2017, we recorded charges of $445 million: $378 million at BCA, $44 million at BGS, and $23 million at BDS. During 2016, we recorded charges of $1,127 million: $772 million at BCA and $351 million at BDS.

Core operating earnings for 2018 increased by $1,754 million compared with 2017 primarily due to higher earnings at BCA and BGS, partially offset by lower earnings at BDS and higher unallocated expenses.

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Core operating earnings in 2017 increased by $3,736 million compared with 2016 primarily due to higher earnings at BCA and BDS.

Unallocated Items, Eliminations and Other The most significant items included in Unallocated items, eliminations and other are shown in the following table:

(Dollars in millions)

Years ended December 31,	**2018**	2017	2016
Share-based plans	**($76)**	($77)	($66)
Deferred compensation	**(19)**	(240)	(46)
Eliminations and other unallocated items	**(1,319)**	(782)	(595)
Unallocated items, eliminations and other	**($1,414)**	($1,099)	($707)

Deferred compensation expense decreased by $221 million in 2018 and increased by $194 million in 2017, primarily driven by changes in broad stock market conditions and our stock price.

Eliminations and other unallocated expense increased by $537 million in 2018 primarily due to timing of expense allocations, higher research and development expense and a $148 million charge incurred related to the outcome of the Spirit litigation. See the discussion in Note 13 to our Consolidated Financial Statements.

Eliminations and other unallocated expense increased by $187 million in 2017 primarily due to the timing of expense allocations.

A portion of service cost is recognized in Earnings from operations in the period incurred and the remainder is included in inventory at the end of the reporting period and recorded in Earnings from operations in subsequent periods.

Net periodic pension benefit costs included in Earnings from operations were as follows:

(Dollars in millions)	Pension		
Years ended December 31,	**2018**	2017	2016
Allocated to business segments	**($1,318)**	($1,637)	($2,286)
Pension FAS/CAS service cost adjustment	**1,005**	1,127	1,029
Net periodic benefit cost included in Earnings from operations	**($313)**	($510)	($1,257)

The pension FAS/CAS service cost adjustment recognized in earnings in 2018, 2017, and 2016 were largely consistent across all periods. The decrease in net periodic benefit costs included in Earnings from operations in 2017 was primarily due to lower service costs reflecting the transition of employees in 2016 to defined contribution retirement savings plans.

For additional discussion related to Postretirement Plans, see Note 17 to our Consolidated Financial Statements.

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Other Earnings Items

(Dollars in millions)

Years ended December 31,	**2018**	2017	2016
Earnings from operations	**$11,987**	$10,344	$6,527
Other income/(loss), net	**92**	123	(438)
Interest and debt expense	**(475)**	(360)	(306)
Earnings before income taxes	**11,604**	10,107	5,783
Income tax expense	**(1,144)**	(1,649)	(749)
Net earnings from continuing operations	**$10,460**	$8,458	$5,034

Other income/(loss), net decreased by $31 million in 2018 primarily due to lower gains from foreign exchange, partially offset by higher interest income. Other income/(loss), net increased by $561 million in 2017 primarily due to a decrease in non-operating pension and postretirement costs and higher gains from foreign exchange. The non-operating pension expense included in Other income/(loss), net was a benefit of $143 million in 2018 and $117 million in 2017, compared with an expense of $327 million in 2016. The benefits in 2018 and 2017 reflect expected returns in excess of interest cost and amortization of actuarial losses. The expense in 2016 reflects the amortization of non-service costs previously capitalized as inventory in prior years, primarily interest cost and amortization of actuarial losses in excess of expected returns.

Interest and debt expense increased by $115 million in 2018 as a result of higher debt balances and lower capitalized interest and increased by $54 million in 2017 as a result of lower capitalized interest.

For additional discussion related to Income Taxes, see Note 6 to our Consolidated Financial Statements.

Total Costs and Expenses ("Cost of Sales")

Cost of sales, for both products and services, consists primarily of raw materials, parts, sub-assemblies, labor, overhead and subcontracting costs. Our BCA segment predominantly uses program accounting to account for cost of sales. Under program accounting, cost of sales for each commercial airplane program equals the product of (i) revenue recognized in connection with customer deliveries and (ii) the estimated cost of sales percentage applicable to the total remaining program. For long-term contracts, the amount reported as cost of sales is recognized as incurred. Substantially all contracts at our BDS segment, certain military derivative aircraft contracts at BCA and certain contracts at our BGS segment are long-term contracts with the U.S. government and other customers that generally extend over several years. Costs on these contracts are recorded as incurred.

The following table summarizes cost of sales:

(Dollars in millions)

Years ended December 31	**2018**	2017	Change	2017	2016	Change
Cost of sales	**$81,490**	$76,612	$4,878	$76,612	$79,026	($2,414)
Cost of sales as a % of revenues	**80.6%**	81.5%	(0.9%)	81.5%	84.5%	(3.0)%

Cost of sales in 2018 increased by $4,878 million, or 6%, compared with 2017, primarily due to higher revenue and higher reach-forward losses at BCA and BDS.

Cost of sales in 2017 decreased by $2,414 million, or 3%, compared with 2016, primarily due to lower reach-forward losses at BCA and BDS.

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Research and Development The following table summarizes our Research and development expense:

(Dollars in millions)

Years ended December 31,	**2018**	2017	2016
Commercial Airplanes	**$2,188**	$2,247	$3,706
Defense, Space & Security	**788**	834	816
Global Services	**161**	140	152
Other	**132**	(42)	(48)
Total	**$3,269**	$3,179	$4,626

Research and development expense in 2018 increased by $90 million compared with 2017 due to investment in product development, partially offset by lower spending on 777X and 787-10.

Research and development expense in 2017 decreased by $1,447 million compared with 2016 primarily due to the reclassification of $1,235 million of costs from inventory in the second quarter of 2016 related to the fourth and fifth 787 flight test aircraft as well as lower spending on the 737 MAX, 787-10, and 777X.

Backlog

Our backlog at December 31 was as follows:

(Dollars in millions)

Years ended December 31,	**2018**	2017
Commercial Airplanes	**$412,307**	$410,986
Defense, Space & Security	**57,166**	44,049
Global Services	**21,008**	19,605
Total Backlog	**$490,481**	$474,640
Contractual backlog	**462,070**	456,984
Unobligated backlog	**28,411**	$17,656
Total Backlog	**$490,481**	$474,640

Contractual backlog of unfilled orders excludes purchase options, announced orders for which definitive contracts have not been executed, and unobligated U.S. and non-U.S. government contract funding. The increase in contractual backlog during 2018 was primarily due to BDS orders and funding for contract awards in excess of revenue recognized.

Unobligated backlog includes U.S. and non-U.S. government definitive contracts for which funding has not been authorized. The increase in unobligated backlog in 2018 was primarily due to contract awards, partially offset by reclassifications to contractual backlog related to BDS and BGS contracts.

Additional Considerations

KC-46A Tanker In 2011, we were awarded a contract from the U.S. Air Force (USAF) to design, develop, manufacture and deliver four next generation aerial refueling tankers. The KC-46A Tanker is a derivative of our 767 commercial aircraft. This Engineering, Manufacturing and Development (EMD) contract is a fixed-price incentive fee contract valued at $4.9 billion and involves highly complex designs and systems integration. In 2016, following our achievement of key flight testing milestones, the USAF authorized two LRIP lots for 7 and 12 aircraft valued at $2.8 billion, and in 2017, the USAF authorized an additional LRIP lot for 15 aircraft valued at $2.1 billion. On September 10, 2018, the USAF authorized an additional LRIP lot for 18 aircraft valued at $2.9 billion. The contract contains production options for both LRIP aircraft and full rate production aircraft. If all options under the contract are exercised, we expect to deliver 179 aircraft for a total expected contract value of approximately $30 billion. In January 2019, we delivered the first KC-46A Tanker to the USAF.

During 2016, we recorded reach-forward losses of $1,127 million related to the EMD contract and LRIP aircraft. During 2017, we recorded reach-forward losses of $445 million related to this program, primarily reflecting higher estimated costs associated with certification and incorporating changes into LRIP aircraft. During 2018, we recorded additional reach-forward losses of $736 million primarily reflecting higher estimated costs associated with certification, flight testing and change incorporation on aircraft, as well as higher than expected effort to meet customer requirements in order to support delivery of the initial aircraft. As with any development program, this program remains subject to additional reach-forward losses and/or delivery delays if we experience further production, technical or quality issues, and delays in flight testing, certification and/or delivery.

Export-Import Bank of the United States Many of our non-U.S. customers finance purchases through the Export-Import Bank of the United States. Following the expiration of the bank's charter on June 30, 2015, the bank's charter was reauthorized in December 2015. The bank is now authorized through September 30, 2019. However, until the U.S. Senate confirms members sufficient to reconstitute a quorum of the bank's board of directors, the bank will not be able to approve any transaction totaling more than $10 million. As a result, we may fund additional commitments and/or enter into new financing arrangements with customers. Certain of our non-U.S. customers also may seek to delay purchases if they cannot obtain financing at reasonable costs, and there may be further impacts with respect to future sales campaigns involving non-U.S. customers. We continue to work with our customers to mitigate risks associated with the lack of a quorum of the bank's board of directors and assist with alternative third party financing sources.

Global Trade On June 1, 2018, the U.S. Government began imposing tariffs on steel and aluminum imports. In response to these tariffs, several major U.S. trading partners have imposed, or announced their intention to impose, tariffs on U.S. goods. We continue to monitor the potential for any extra costs that may result from these actions.

On July 6, 2018, the U.S. and China began imposing tariffs on approximately $34 billion of each other's exports. Certain aircraft parts and components that Boeing procures are subject to these tariffs. Subsequently, the U.S. imposed tariffs on an additional $216 billion in Chinese goods, and China imposed tariffs on an additional $76 billion worth of U.S goods. On December 1, 2018, the U.S. and China agreed to a 90-day timetable to negotiate a resolution to the trade dispute. We continue to monitor the potential for any disruption and adverse revenue and/or cost impacts that may result from these actions or future geopolitical economic developments.

The U.S. Government continues to impose and/or threaten to impose sanctions on certain businesses and individuals in Russia. Although our operations or sales in Russia have not been impacted to date, we continue to monitor additional sanctions that may be imposed by the U.S. Government and any responses from Russia that could affect our supply chain, business partners or customers.

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Segment Results of Operations and Financial Condition
Commercial Airplanes
Business Environment and Trends

Airline Industry Environment Global economic growth, a primary driver for air travel, was above the long-term average of approximately 3% in 2018. Passenger traffic is estimated to grow by 6.5% in 2018, exceeding the long-term average of approximately 5%. While growth was strong across all major world regions, there continues to be variation between regions and airline business models. Airlines operating in Asia Pacific, Europe and North America, as well as low-cost-carriers globally, are currently leading the growth in passenger traffic. Air cargo traffic growth is expected to be between 4.0% and 4.5% in 2018, around the long-term average.

Airline financial performance also plays a role in the demand for new capacity. Airlines continue to focus on increasing revenue through alliances, partnerships, new marketing initiatives, and effective leveraging of ancillary services and related revenues. Airlines are also focusing on reducing costs and renewing fleets to leverage more efficient airplanes. Net profits in 2018 are expected to approximate $32 billion.

The long-term outlook for the industry continues to remain positive due to the fundamental drivers of air travel demand: economic growth and the increasing propensity to travel due to increased trade, globalization, and improved airline services driven by liberalization of air traffic rights between countries. Our 20-year forecast projects a long-term average growth rate of 4.7% per year for passenger traffic and 4.2% for cargo traffic. Based on long-term global economic growth projections of 2.8% average annual GDP growth, we project a $6.3 trillion market for approximately 42,700 new airplanes over the next 20 years. The industry remains vulnerable to exogenous developments including fuel price spikes, credit market shocks, acts of terrorism, natural disasters, conflicts, epidemics and increased global environmental regulations.

Industry Competitiveness The commercial jet airplane market and the airline industry remain extremely competitive. Market liberalization in Europe, the Middle East and Asia is enabling low-cost airlines to continue gaining market share. These airlines are increasing the pressure on airfares. This results in continued cost pressures for all airlines and price pressure on our products. Major productivity gains are essential to ensure a favorable market position at acceptable profit margins.

Continued access to global markets remains vital to our ability to fully realize our sales potential and long-term investment returns. Approximately 88% of Commercial Airplanes’ total backlog, in dollar terms, is with non-U.S. airlines.

We face aggressive international competitors who are intent on increasing their market share. They offer competitive products and have access to most of the same customers and suppliers. With government support, Airbus has historically invested heavily to create a family of products to compete with ours. Regional jet makers, Embraer and Bombardier, continue to develop and market larger and increasingly more capable airplanes. During 2018, Airbus acquired a majority share of Bombardier’s C Series (now A220) and is in the 100-150 seat transcontinental market, while Embraer’s first E195-E2 delivered in 2018. Additionally, other competitors from Russia, China and Japan are developing commercial jet aircraft. Some of these competitors have historically enjoyed access to government-provided financial support, including “launch aid,” which greatly reduces the cost and commercial risks associated with airplane development activities. This has enabled the development of airplanes without commercial viability; others to be brought to market more quickly than otherwise possible; and many offered for sale below market-based prices. Many competitors have continued to make improvements in efficiency, which may result in funding product development, gaining market share and improving earnings. This market environment has resulted in intense pressures on pricing and other competitive factors, and we expect these pressures to continue or intensify in the coming years.

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We are focused on improving our products and services and continuing our cost-reduction efforts, which enhances our ability to compete. We are also focused on taking actions to ensure that Boeing is not harmed by unfair subsidization of competitors.

Results of Operations

(Dollars in millions)

Years ended December 31,	**2018**	2017	2016
Revenues	**$60,715**	$58,014	$59,378
% of total company revenues	**60 %**	62 %	64 %
Earnings from operations	**$7,879**	$5,452	$1,981
Operating margins	**13.0 %**	9.4 %	3.3 %
Research and development	**$2,188**	$2,247	$3,706

Revenues

BCA revenues increased by $2,701 million or 5% in 2018 compared with 2017 due to higher 737 and 787 deliveries and favorable 737 and 787 model mix, which more than offset lower 777 and 747 deliveries. BCA revenues decreased by $1,364 million or 2% in 2017 compared with 2016 primarily due to delivery mix, with fewer twin aisle deliveries more than offsetting the impact of higher single aisle deliveries.

Commercial Airplanes deliveries as of December 31 were as follows:

	737 *	**747** †	**767** *	**777**	**787**	**Total**
2018						
Cumulative deliveries	**7,312**	**1,548**	**1,133**	**1,582**	**781**	
Deliveries	**580** (18)	**6**	**27** (10)	**48**	**145**	**806**
2017						
Cumulative deliveries	6,732	1,542	1,106	1,534	636	
Deliveries	529 (17)	14 (1)	10	74	136	763
2016						
Cumulative deliveries	6,203	1,528	1,096	1,460	500	
Deliveries	490 (19)	9 (3)	13	99	137	748

* Intercompany deliveries identified by parentheses

† Aircraft accounted for as revenues by BCA and as operating leases in consolidation identified by parentheses

Earnings From Operations

Earnings from operations in 2018 increased by $2,427 million compared with 2017. The increase in operating earnings reflects higher revenues and improved operating margins. The increase in operating margins is primarily due to higher 787 margins, improved cost performance and favorable delivery mix. Earnings from operations in 2017 increased by $3,471 million compared with 2016. The increase in operating earnings and operating margins is primarily due to lower reach-forward losses, lower research and development costs, and improved margins reflecting favorable cost performance, which more than offset the impact of lower revenues. Research and development expense in 2016 reflects the reclassification from inventory to research and development expense of $1,235 million related to the fourth and fifth 787 flight test aircraft and higher planned spending related to the 777X program.

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Reach-forward losses of $500 million, $378 million and $772 million were recorded related to the KC-46A Tanker in 2018, 2017 and 2016, respectively. During 2016, we recorded reach-forward losses on the 747 program of $1,258 million.

Backlog

Our total backlog represents the estimated transaction prices on unsatisfied and partially satisfied performance obligations to our customers where we believe it is probable that we will collect the consideration due and where no contingencies remain before we and the customer are required to perform. Backlog does not include prospective orders where customer controlled contingencies remain, such as the customer receiving approval from its board of directors, shareholders or government or completing financing arrangements. All such contingencies must be satisfied or have expired prior to recording a new firm order even if satisfying such conditions is highly certain. Backlog excludes options and BCC orders. A number of our customers may have contractual remedies that may be implicated by program delays. We address customer claims and requests for other contractual relief as they arise. The value of orders in backlog is adjusted as changes to price and schedule are agreed to with customers and is reported in accordance with the requirements of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606).

BCA total backlog of $412,307 million at December 31, 2018 increased from $410,986 million at December 31, 2017, primarily due to net orders in excess of deliveries.

Accounting Quantity The accounting quantity is our estimate of the quantity of airplanes that will be produced for delivery under existing and anticipated contracts. The determination of the accounting quantity is limited by the ability to make reasonably dependable estimates of the revenue and cost of existing and anticipated contracts. It is a key determinant of the gross margins we recognize on sales of individual airplanes throughout a program’s life. Estimation of each program’s accounting quantity takes into account several factors that are indicative of the demand for that program, including firm orders, letters of intent from prospective customers and market studies. We review our program accounting quantities quarterly. The accounting quantity for each program may include units that have been delivered, undelivered units under contract, and units anticipated to be under contract in the reasonable future (anticipated orders). In developing total program estimates, all of these items within the accounting quantity must be considered.

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The following table provides details of the accounting quantities and firm orders by program as of December 31. Cumulative firm orders represent the cumulative number of commercial jet aircraft deliveries plus undelivered firm orders.

	Program								
	737	**†**	**747***	**767**	**777**	**†**	**777X**	**787**	**†**
2018									
Program accounting quantities	**10,400**		**1,574**	**1,195**	**1,680**		**	**1,600**	
Undelivered units under firm orders	**4,708**	**(75)**	**24**	**111**	**100**	**(2)**	**326**	**604**	**(30)**
Cumulative firm orders	**12,020**	**(75)**	**1,572**	**1,244**	**1,682**	**(2)**	**326**	**1,385**	**(30)**
2017									
Program accounting quantities	9,800		1,570	1,171	1,625		**	1,400	
Undelivered units under firm orders***	4,613		12	98	97		326	640	
Cumulative firm orders***	11,345		1,554	1,204	1,631		326	1,276	
2016									
Program accounting quantities	9,000		1,555	1,159	1,625		**	1,300	
Undelivered units under firm orders***	4,452		28	93	136		306	700	
Cumulative firm orders***	10,655		1,556	1,189	1,596		306	1,200	

† Aircraft ordered by BCC are identified in parentheses.
* At December 31, 2018, the 747 accounting quantity includes one already completed aircraft that has not been sold and is being remarketed.
** The accounting quantity for the 777X will be determined in the year of first airplane delivery, targeted for 2020.
*** Cumulative firm orders adjusted to reflect the adoption of Topic 606 in the first quarter of 2018.

Program Highlights

737 Program The accounting quantity for the 737 program increased by 600 units during 2018 due to the program's normal progress of obtaining additional orders and delivering airplanes. We delivered the first 737 MAX 8 in May 2017, announced the launch of the 737 MAX 10 in June 2017 and delivered the first 737 MAX 9 in March 2018. The production rate increased from 47 per month to 52 per month in the second quarter of 2018, however the timing of deliveries in 2018 was adversely affected by delays in the supply chain. We continue to plan to increase the production rate to 57 per month in 2019.

747 Program During the fourth quarter of 2018, we received a firm order for 4 new aircraft and increased the accounting quantity by 4 units to 1,574 aircraft. The program accounting quantity now includes aircraft scheduled to be produced through 2022. We are currently producing at a rate of 0.5 aircraft per month having reduced the rate from 1.0 per month in September 2016. In 2016, we recorded reach-forward losses of $1,258 million as lower than expected demand for large commercial passenger and freighter aircraft and slower than expected growth of global freight traffic resulted in lower anticipated revenues from future sales and higher costs to produce fewer airplanes. We continue to evaluate the viability of the 747 program. We believe that a decision to end production of the 747 at the end of the current accounting quantity would not have a material impact on our financial position, results of operations or cash flows.

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767 Program The accounting quantity for the 767 program increased by 24 units during the first quarter of 2018 due to the program's normal progress of obtaining additional orders and delivering airplanes. The 767 assembly line includes a 767 derivative to support the tanker program. We are currently producing at a rate of 2.5 per month and plan to increase to 3 per month in 2020.
777 Program The accounting quantity for the 777 program increased by 55 units during 2018 due to the program’s normal progress of obtaining additional orders and delivering airplanes. We are currently producing at a rate of 5 per month. In 2013, we launched the 777X, which features a new composite wing, new engines and folding wing-tips. The 777X will have a separate program accounting quantity, which will be determined in the year of first airplane delivery, targeted for 2020.
787 Program The accounting quantity for the 787 program increased by 200 units during 2018 due to the program’s normal progress of obtaining additional orders and delivering airplanes. We are currently producing at a rate of 12 per month and plan to increase to 14 per month in 2019. We delivered the first 787-10 in March 2018.
Fleet Support We provide the operators of our commercial airplanes with assistance and services to facilitate efficient and safe airplane operation. Collectively known as fleet support services, these activities and services begin prior to airplane delivery and continue throughout the operational life of the airplane. They include flight and maintenance training, field service support, engineering services, information services and systems and technical data and documents. The costs for fleet support are expensed as incurred and have historically been approximately 1.0% of total consolidated costs of products and services.
Program Development The following chart summarizes the time horizon between go-ahead and planned initial delivery for major Commercial Airplanes derivatives and programs.

Go-ahead and Initial Delivery

737 MAX 7	2011	2019
737 MAX 8	2011	2017
737 MAX 9	2011	2018
737 MAX 10	2017	2020
787-10	2013	2018
777X	2013	2020

Reflects models in development during 2018

We launched the 737 MAX 7, 8 and 9 in August 2011 and the 737 MAX 10 in June 2017. We launched the 787-10 in June 2013 and the 777X in November 2013.

Additional Considerations

The development and ongoing production of commercial aircraft is extremely complex, involving extensive coordination and integration with suppliers and highly-skilled labor from employees and other partners. Meeting or exceeding our performance and reliability standards, as well as those of customers and regulators, can be costly and technologically challenging. In addition, the introduction of new aircraft and derivatives, such as the 777X, involves increased risks associated with meeting development, production and certification schedules. As a result, our ability to deliver aircraft on time, satisfy performance and reliability standards and achieve or maintain, as applicable, program profitability is subject to significant risks. Factors that could result in lower margins (or a material charge if an airplane program has or is determined to have reach-forward losses) include the following: changes to the program accounting quantity, customer and model mix, production costs and rates, changes to price escalation factors due to changes in the inflation rate or other economic indicators, performance or reliability issues involving completed aircraft, capital expenditures and other costs associated with increasing or adding new production capacity, learning curve, additional change incorporation, achieving anticipated cost reductions, flight test and certification schedules, costs, schedule and demand for new airplanes and derivatives and status of customer claims, supplier assertions and other contractual negotiations. While we believe the cost and revenue estimates incorporated in the consolidated financial statements are appropriate, the technical complexity of our airplane programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger termination provisions, order cancellations or other financially significant exposure.

Defense, Space & Security

Business Environment and Trends

United States Government Defense Environment Overview

The Bipartisan Budget Act of 2018, passed in February 2018, raised the 2011 Budget Control Act spending caps for fiscal years 2018 and 2019 (FY18 and FY19). The consolidated spending bills signed into law in September 2018 provide defense funding for FY19, in compliance with the revised caps. These bills also provide FY19 appropriations for most of the federal government. Full year funding for the departments and agencies not covered by enacted FY19 appropriations, including the National Aeronautics and Space Administration (NASA) and Federal Aviation Administration (FAA), remains uncertain. The unfunded departments and agencies affected by the partial government shutdown (December 22, 2018 through January 25, 2019) are now covered by a Continuing Resolution that extends funding at FY18 levels through February 15, 2019. Congress and the President must agree to FY19 appropriations or an additional Continuing Resolution to fund affected departments and agencies beyond the February 15 deadline in order to prevent a second partial government shutdown. The impact of a partial government shutdown to the Company’s operations would increase as the shutdown continues.

There continues to be uncertainty with respect to future program-level appropriations for the U.S. DoD and other government agencies, including NASA. The 2011 Budget Control Act continues to mandate limits on U.S. government discretionary spending for fiscal years 2020 and 2021 (FY20 and FY21). The lower budget caps will take effect again in FY20 and FY21 unless Congress acts to raise the spending caps or to repeal or suspend the law. As a result, continued budget uncertainty and the risk of future sequestration cuts remain. Future budget cuts or investment priority changes could result in reductions, cancellations and/or delays of existing contracts or programs. Any of these impacts could have a material effect on the results of the Company’s operations, financial position and/or cash flows.

Non-U.S. Defense Environment Overview The non-U.S. market continues to be driven by complex and evolving security challenges and the need to modernize aging equipment and inventories. BDS expects that it will continue to have a wide range of opportunities across Asia, Europe and the Middle East given the diverse regional threats. At the end of 2018, 30% of BDS backlog was attributable to non-U.S. customers.

Results of Operations

(Dollars in millions)

Years ended December 31,	**2018**		2017		2016	
Revenues	**$23,195**		$20,561		$20,180	
% of total company revenues	**23**	**%**	22	%	22	%
Earnings from operations	**$1,594**		$2,193		$1,678	
Operating margins	**6.9**	**%**	10.7	%	8.3	%

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Since our operating cycle is long-term and involves many different types of development and production contracts with varying delivery and milestone schedules, the operating results of a particular year, or year-to-year comparisons of revenues, earnings and backlog may not be indicative of future operating results. In addition, depending on the customer and their funding sources, our orders might be structured as annual follow-on contracts, or as one large multi-year order or long-term award. As a result, period-to-period comparisons of backlog are not necessarily indicative of future workloads. The following discussions of comparative results among periods should be viewed in this context.
Deliveries of units for new-build production aircraft, including remanufactures and modifications were as follows:

Years ended December 31,	**2018**	2017	2016
F/A-18 Models	**17**	23	25
F-15 Models	**10**	16	15
C-17 Globemaster III			4
CH-47 Chinook (New)	**13**	9	25
CH-47 Chinook (Renewed)	**17**	35	25
AH-64 Apache (New)		11	31
AH-64 Apache (Remanufactured)	**23**	57	34
P-8 Models	**16**	19	18
C-40A			1
Total	**96**	170	178

New-build satellite deliveries were as follows:

Years ended December 31,	**2018**	2017	2016
Commercial and civil satellites	**1**	3	5
Military satellites	**1**	1	2

Revenues

BDS revenues in 2018 increased by $2,634 million compared with 2017 primarily due to non-US contract awards for fighters, higher weapons revenue, the final C-17 aircraft sale and higher satellites revenue. Net favorable cumulative contract catch-up adjustments to revenue for 2018 were $214 million lower than the comparable period in the prior year, reflecting increased unfavorable adjustments on the KC-46A Tanker recorded in 2018.
BDS revenues in 2017 increased by $381 million compared with 2016 primarily due to higher weapons revenue. Net favorable cumulative contract catch-up adjustments to revenue for 2017 were $81 million higher than the comparable period in the prior year, reflecting decreased unfavorable adjustments on the KC-46A Tanker recorded in 2017.

Earnings From Operations

BDS earnings from operations in 2018 decreased by $599 million compared with 2017 as earnings' growth from higher revenues was more than offset by charges of $691 million related to winning the T-X Trainer and MQ-25 competitions, as well as $199 million of higher KC-46A Tanker reach-forward losses. Net favorable cumulative contract catch-up adjustments to earnings for 2018 were $315 million lower than the comparable period in the prior year, driven by higher charges on development programs in 2018.

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BDS earnings from operations in 2017 increased by $515 million compared with 2016 primarily due to lower charges on the KC-46A Tanker and Commercial Crew programs. Higher earnings reflect the favorable impact of cumulative catch-up adjustments which were $374 million higher in 2017 than in 2016, primarily driven by lower charges on development programs in 2017.

BDS earnings from operations include equity earnings of $147 million, $183 million and $249 million primarily from our ULA and non-U.S. joint ventures in 2018, 2017 and 2016, respectively.

During 2018, 2017 and 2016, BDS recorded charges related to the KC-46A Tanker contract of $222 million, $23 million and $351 million, respectively.

Backlog

Total backlog of $57,166 million at December 31, 2018 increased by 30% from $44,049 million at December 31, 2017, primarily due to current year contract awards in many of our programs greater than revenue recognized. Significant orders included Satellites, F/A-18 fighters, Ground-based Midcourse Defense, weapons, VC-25B Presidential Aircraft, V-22 Osprey, CH-47 Chinook, MQ-25 Stingray and T-X Trainer.

Additional Considerations

Our BDS business includes a variety of development programs which have complex design and technical challenges. Many of these programs have cost-type contracting arrangements. In these cases, the associated financial risks are primarily in reduced fees, lower profit rates or program cancellation if cost, schedule or technical performance issues arise. Examples of these programs include Ground-based Midcourse Defense, Proprietary and Space Launch System programs.

Some of our development programs are contracted on a fixed-price basis and BDS customers are increasingly seeking fixed priced proposals for new programs. Examples of significant fixed-price development programs include Commercial Crew, Saudi F-15, USAF KC-46A Tanker, T-X Trainer, VC-25B Presidential Aircraft, MQ-25 Stingray, and commercial and military satellites. New programs could also have risk for reach-forward loss upon contract award and during the period of contract performance. In the third quarter, we were awarded contracts to develop the T-X Trainer aircraft with complementary devices and the MQ-25 Stingray. We recorded orders of $1,618 million and recognized losses of $691 million associated with these contracts. Many development programs have highly complex designs. As technical or quality issues arise during development, we may experience schedule delays and cost impacts, which could increase our estimated cost to perform the work or reduce our estimated price, either of which could result in a material charge or otherwise adversely affect our financial condition. These programs are ongoing, and while we believe the cost and fee estimates incorporated in the financial statements are appropriate, the technical complexity of these programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger termination provisions, the loss of satellite in-orbit incentive payments, or other financially significant exposure. These programs have risk for reach-forward losses if our estimated costs exceed our estimated contract revenues.

KC-46A Tanker See the discussion of the KC-46A Tanker program on page 23.

United Launch Alliance See the discussion of Indemnifications to ULA and Financing Commitments in Notes 8 and 15 to our Consolidated Financial Statements.

Sea Launch See the discussion of the Sea Launch receivables in Note 13 to our Consolidated Financial Statements.

Commercial Crew See the discussion of Fixed-Price Development Contracts in Note 14 to our Consolidated Financial Statements.

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T-X Trainer In September 2018, we were selected by the U.S. Air Force to build the next generation training capability, known as T-X. The program includes aircraft and simulators as well as support and ground equipment. The contract is structured as an indefinite delivery/indefinite quantity (IDIQ) fixed-price contract with a minimum of 206 aircraft and a maximum of 475 aircraft. The EMD contract is a fixed-price contract valued at $813 million and includes five aircraft and seven simulators, with a period of performance that runs through 2022. The production and support contracts are structured as options that begin with authorization from fiscal year 2022 to 2034. In connection with winning this competition, we recorded a reach-forward loss of $400 million associated with anticipated losses on the options for 346 aircraft that we believe are probable of being exercised. We believe that our investment in this contract positions us for additional market opportunities for both trainer and light attack aircraft.

MQ-25 Stingray In August 2018, we were awarded an EMD contract to build the MQ-25 Stingray for the U.S. Navy. The EMD contract is a fixed-price contract that includes development and delivery of four aircraft and test articles at a contract price of $805 million. In connection with winning this competition, we recognized a reach-forward loss of $291 million. The period of performance runs from 2018 through 2024. The MQ-25 Stingray is the U.S. Navy's first operational carrier-based unmanned aircraft, and we believe that our investment in this contract positions us for long-term leadership in autonomy and artificial intelligence technologies along with additional market opportunities.

Global Services

Business Environment and Trends

The aerospace markets we serve include parts distribution, logistics, and other inventory services; maintenance, engineering, and upgrades; training and professional services; and information services. We expect the market to grow by around 3.5% annually.

As the size of the worldwide commercial airline fleet continues to grow, so does demand for aftermarket services designed to increase efficiency and extend the economic lives of airplanes. Airlines are using data analytics to plan flight operations and predictive maintenance to improve their productivity and efficiency. Airlines continue to look for opportunities to reduce the size and cost of their spare parts inventory, frequently outsourcing spares management to third parties.

Government services market segments are growing on pace with related fleets, but vary based on the utilization and age of the aircraft. The U.S. government services market is the single largest individual market, comprising over 50 percent of the government services markets served. Over the next decade, we expect U.S. growth to remain flat and non-U.S. fleets, led by Middle East and Asia Pacific customers, to add rotorcraft and commercial derivative aircraft at the fastest rates. We expect less than 20 percent of the worldwide fleet of military aircraft to be retired and replaced over the next ten years, driving increased demand for services to maintain aging aircraft and enhance aircraft capability.

BGS' major customer, the U.S. government, remains subject to the spending limits and uncertainty described on page 30, which could restrict the execution of certain program activities and delay new programs or competitions.

Industry Competitiveness Aviation services is a competitive market with many domestic and international competitors. This market environment has resulted in intense pressures on pricing and we expect these pressures to continue or intensify in the coming years. Continued access to global markets remains vital to our ability to fully realize our sales growth potential and long-term investment returns.

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Results of Operations

(Dollars in millions)

Years ended December 31,	**2018**		2017		2016	
Revenues	**$17,018**		$14,581		$13,819	
% of total company revenues	**17**	**%**	16	%	15	%
Earnings from operations	**$2,522**		$2,246		$2,159	
Operating margins	**14.8**	**%**	15.4	%	15.6	%

Revenues

BGS revenues in 2018 increased by $2,437 million compared with 2017 due to growth across our services portfolio, primarily driven by higher parts revenue including the acquisition of KLX. Net favorable cumulative contract catch-up adjustments to revenue were $63 million lower in 2018 than in 2017.

BGS revenues in 2017 increased by $762 million compared with 2016 primarily due to higher commercial parts revenues. Net favorable cumulative contract catch-up adjustments to revenue were $19 million higher in 2017 than in 2016.

Earnings From Operations

BGS earnings from operations in 2018 increased by $276 million compared with 2017 primarily due to higher revenues, partially offset by higher period costs. Net favorable cumulative contract catch-up adjustments were $25 million lower in 2018 than in 2017.

BGS earnings from operations in 2017 increased by $87 million compared with 2016 primarily due to higher revenues, partially offset by commercial services mix. Net favorable cumulative contract catch-up adjustments were $51 million lower in 2017 than in 2016.

Backlog

BGS total backlog of $21,008 million at December 31, 2018 increased by 7% from $19,605 million at December 31, 2017, primarily due to current year contract awards, partially offset by revenue recognized on contracts awarded in prior years.

Additional Considerations

KLX See the discussion of the KLX acquisition in Note 3 to our Consolidated Financial Statements.

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Boeing Capital

Business Environment and Trends

BCC’s gross customer financing and investment portfolio atDecember 31, 2018 totaled $2,792 million. A substantial portion of BCC’s portfolio is related to customers that we believe have less than investment-grade credit. BCC’s portfolio is also concentrated by varying degrees across Boeing aircraft product types, most notably 717 and 747-8 aircraft.

BCC provided customer financing of $601 million and $480 million during 2018 and 2017. While we may be required to fund a number of new aircraft deliveries in 2019 and/or provide refinancing for existing bridge debt, we expect alternative financing will be available at reasonable prices from broad and globally diverse sources. However, a number of factors could cause BCC’s new business volume to increase further, including if the Export-Import Bank of the United States continues to be unable to, or does not, approve new financing transactions.

Aircraft values and lease rates are impacted by the number and type of aircraft that are currently out of service. Approximately 1,700 western-built commercial jet aircraft (6.7% of current world fleet) were parked at the end of 2018, including both in-production and out-of-production aircraft types. Of these parked aircraft, approximately 2% are not expected to return to service. At the end of 2017 and 2016, 8.3% and 8.8% of the western-built commercial jet aircraft were parked. Aircraft valuations could decline if significant numbers of additional aircraft, particularly types with relatively few operators, are placed out of service.

Results of Operations

(Dollars in millions)

Years ended December 31,	**2018**	2017	2016
Revenues	**$274**	$307	$298
Earnings from operations	**$79**	$114	$59
Operating margins	**29 %**	37 %	20 %

Revenues

BCC segment revenues consist principally of lease income from equipment under operating lease, interest income from financing receivables and notes, and other income. BCC’s revenues in2018 decreased by $33 million compared with 2017 primarily due to lower lease income driven by a smaller portfolio, partially offset by gain on sale of assets. BCC’s revenues in2017 were consistent with 2016.

Earnings From Operations

BCC’s earnings from operations are presented net of interest expense, provision for (recovery of) losses, asset impairment expense, depreciation on leased equipment and other operating expenses. Earnings from operations in 2018 decreased by $35 million primarily due to lower revenues. Earnings from operations in 2017 increased by $55 million primarily due to lower asset impairment and depreciation expenses.

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Financial Position

The following table presents selected financial data for BCC as of December 31:

(Dollars in millions)	**2018**	2017
Customer financing and investment portfolio, net	**$2,790**	$3,003
Other assets, primarily cash and short-term investments	**717**	677
Total assets	**$3,507**	$3,680
Other liabilities, primarily deferred income taxes	**$523**	$653
Debt, including intercompany loans	**2,487**	2,523
Equity	**497**	504
Total liabilities and equity	**$3,507**	$3,680
Debt-to-equity ratio	**5.0-to-1**	5.0-to-1

BCC's customer financing and investment portfolio atDecember 31, 2018 decreased from December 31, 2017, primarily due to $812 million of note payoffs, asset sales and portfolio run-off, partially offset by new volume.

Aircraft subject to leases with a carrying value of approximately $84 million are scheduled to be returned off lease during 2019. We are seeking to remarket these aircraft or have the leases extended.

BCC enters into certain transactions with Boeing, reflected in Unallocated items, eliminations and other, in the form of intercompany guarantees and other subsidies that mitigate the effects of certain credit quality or asset impairment issues on the BCC segment.

Liquidity and Capital Resources

Cash Flow Summary

(Dollars in millions)

Years ended December 31,	**2018**	2017	2016
Net earnings	**$10,460**	$8,458	$5,034
Non-cash items	**2,578**	2,636	2,540
Changes in working capital	**2,284**	2,252	2,922
Net cash provided by operating activities	**15,322**	13,346	10,496
Net cash used by investing activities	**(4,621)**	(2,058)	(3,378)
Net cash used by financing activities	**(11,722)**	(11,350)	(9,587)
Effect of exchange rate changes on cash and cash equivalents	**(53)**	80	(33)
Net (decrease) / increase in cash & cash equivalents, including restricted	**(1,074)**	18	(2,502)
Cash & cash equivalents, including restricted, at beginning of year	**8,887**	8,869	11,371
Cash & cash equivalents, including restricted, at end of year	**$7,813**	$8,887	$8,869

Operating Activities Net cash provided by operating activities was $15.3 billion during 2018, compared with $13.3 billion during 2017 and $10.5 billion in 2016. The increase of $2.0 billion in 2018 was primarily driven by higher earnings and lower spending on inventory, partially offset by lower advances. The increase of $2.9 billion in 2017 was primarily driven by higher advances more than offsetting inventory increases.

Advances and progress billings increased by $2.6 billion in 2018, increased by $4.7 billion in 2017 and decreased by $1.3 billion in 2016. During 2017, our discretionary contributions to our pension plans included $14.4 million shares of our common stock with an aggregate value of $3.5 billion and $0.5 billion in cash. Discretionary contributions to our pension plans were insignificant in 2018 and 2016.

Investing Activities Cash used by investing activities during 2018, 2017 and 2016 was $4.6 billion, $2.1 billion and $3.4 billion primarily due to acquisitions during the second half of 2018 and the timing of investments. Acquisitions net of cash acquired were $3.2 billion in 2018, compared with $0.3 billion in 2017 and 2016. Capital expenditures totaled $1.7 billion in both 2018 and 2017, down from $2.6 billion in 2016. We expect capital expenditures in 2019 to be higher than 2018. Net proceeds from investments was $0.3 billion in 2018 and insignificant in 2017, compared with net contributions to investments of $0.5 billion in 2016.

Financing Activities Cash used by financing activities was $11.7 billion during 2018, an increase of $0.4 billion compared with 2017 primarily due to higher dividend payments partially offset by higher net borrowings. Cash used by financing activities was $11.4 billion during 2017, an increase of $1.8 billion compared with 2016, primarily due to higher share repurchases and dividend payments. Net borrowings were $1.4 billion in 2018, $1.1 billion in 2017 and insignificant in 2016.

At December 31, 2018 and 2017 the recorded balance of debt was $13.8 billion and $11.1 billion of which $3.2 billion and $1.3 billion was classified as short-term. At December 31, 2018 and 2017 this included $2.5 billion of debt attributable to BCC, of which $0.5 billion and $0.9 billion were classified as short-term.

During 2018 and 2017 we repurchased 26.1 million and 46.1 million shares totaling $9.0 billion and $9.2 billion through our open market share repurchase program. In 2018 and 2017, we had 0.7 million shares transferred to us from employees for tax withholdings. At December 31, 2018, the amount available under the share repurchase plan, announced on December 17, 2018, totaled $20 billion.

Capital Resources We have substantial borrowing capacity. Any future borrowings may affect our credit ratings and are subject to various debt covenants as described below. We have a commercial paper program that serves as a source of short-term liquidity. At December 31, 2018 and 2017, commercial paper borrowings totaling $1,895 million and $600 million, which were supported by unused commitments under the revolving credit agreement. We had no commercial paper borrowings in 2016. At December 31, 2018, we had $5.1 billion of unused borrowing capacity on revolving credit line agreements. We anticipate that these credit lines will primarily serve as backup liquidity to support our general corporate borrowing needs.

Financing commitments totaled $19.5 billion and $10.2 billion at December 31, 2018 and 2017. The increase primarily relates to commercial airplane orders received in 2018. We anticipate that we will not be required to fund a significant portion of our financing commitments as we continue to work with third party financiers to provide alternative financing to customers. Historically, we have not been required to fund significant amounts of outstanding commitments. However, there can be no assurances that we will not be required to fund greater amounts than historically required. In addition, many of our non-U.S. customers finance aircraft purchases through the Export-Import Bank of the United States. Following the expiration of the bank's charter on June 30, 2015, the bank's charter was reauthorized in December 2015. The bank is now authorized through September 30, 2019. However, until the U.S. Senate confirms members sufficient to reconstitute a quorum of the bank's board of directors, the bank will not be able to approve any transaction totaling more than $10 million. As a result, we may fund additional commitments and/or enter into new financing arrangements with customers.

In the event we require additional funding to support strategic business opportunities, our commercial aircraft financing commitments, unfavorable resolution of litigation or other loss contingencies, or other business requirements, we expect to meet increased funding requirements by issuing commercial paper or term debt. We believe our ability to access external capital resources should be sufficient to satisfy existing short-term and long-term commitments and plans, and also to provide adequate financial flexibility

to take advantage of potential strategic business opportunities should they arise within the next year. However, there can be no assurance of the cost or availability of future borrowings under our commercial paper program or in the debt markets.

At December 31, 2018 and 2017, our pension plans were $15.3 billion and $16.4 billion underfunded as measured under GAAP. On an Employee Retirement Income Security Act (ERISA) basis our plans are 96% funded at December 31, 2018 with minimal required contributions in 2019. We do not expect to make contributions to our pension plans in 2019. We may be required to make higher contributions to our pension plans in future years.

At December 31, 2018, we were in compliance with the covenants for our debt and credit facilities. The most restrictive covenants include a limitation on mortgage debt and sale and leaseback transactions as a percentage of consolidated net tangible assets (as defined in the credit agreements), and a limitation on consolidated debt as a percentage of total capital (as defined). When considering debt covenants, we continue to have substantial borrowing capacity.

Contractual Obligations

The following table summarizes our known obligations to make future payments pursuant to certain contracts as of December 31, 2018, and the estimated timing thereof.

(Dollars in millions)	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt (including current portion)	$13,932	$3,137	$1,927	$1,326	$7,542
Interest on debt	6,458	523	891	752	4,292
Pension and other postretirement cash requirements	14,379	606	1,627	5,050	7,096
Capital lease obligations	164	58	75	20	11
Operating lease obligations	1,850	278	432	291	849
Purchase obligations not recorded on the Consolidated Statements of Financial Position	126,693	51,784	41,470	22,649	10,790
Purchase obligations recorded on the Consolidated Statements of Financial Position	19,900	19,076	716	80	28
Total contractual obligations [1]	$183,376	$75,462	$47,138	$30,168	$30,608

(1) Excludes income tax matters. As of December 31, 2018, our net liability for income taxes payable, including uncertain tax positions of $2,412 million, was $2,392 million. For further discussion of income taxes, see Note 6 to our Consolidated Financial Statements. We are not able to reasonably estimate the timing of future cash flows related to uncertain tax positions.

Pension and Other Postretirement Benefits Pension cash requirements are based on an estimate of our minimum funding requirements, pursuant to ERISA regulations, although we may make additional discretionary contributions. Estimates of other postretirement benefits are based on both our estimated future benefit payments and the estimated contributions to plans that are funded through trusts.

Purchase Obligations Purchase obligations represent contractual agreements to purchase goods or services that are legally binding; specify a fixed, minimum or range of quantities; specify a fixed, minimum, variable, or indexed price provision; and specify approximate timing of the transaction. Purchase obligations include amounts recorded as well as amounts that are not recorded on the Consolidated Statements of Financial Position.

Purchase Obligations Not Recorded on the Consolidated Statements of Financial Position Purchase obligations not recorded on the Consolidated Statements of Financial Position include agreements for inventory procurement, tooling costs, electricity and natural gas contracts, property, plant and equipment, customer financing equipment, and other miscellaneous production related obligations. The most significant obligation relates to inventory procurement contracts. We have entered into certain significant inventory procurement contracts that specify determinable prices and quantities, and long-term delivery timeframes. In addition, we purchase raw materials on behalf of our suppliers. These agreements require suppliers and vendors to be prepared to build and deliver items in sufficient time to meet our production schedules. The need for such arrangements with suppliers and vendors arises from the extended production planning horizon for many of our products. A significant portion of these inventory commitments is supported by firm contracts and/or has historically resulted in settlement through reimbursement from customers for penalty payments to the supplier should the customer not take delivery. These amounts are also included in our forecasts of costs for program and contract accounting. Some inventory procurement contracts may include escalation adjustments. In these limited cases, we have included our best estimate of the effect of the escalation adjustment in the amounts disclosed in the table above.

Purchase Obligations Recorded on the Consolidated Statements of Financial Position Purchase obligations recorded on the Consolidated Statements of Financial Position primarily include accounts payable and certain other current and long-term liabilities including accrued compensation.

Industrial Participation Agreements We have entered into various industrial participation agreements with certain customers outside of the U.S. to facilitate economic flow back and/or technology or skills transfer to their businesses or government agencies as the result of their procurement of goods and/or services from us. These commitments may be satisfied by our local operations there, placement of direct work or vendor orders for supplies, opportunities to bid on supply contracts, transfer of technology or other forms of assistance. However, in certain cases, our commitments may be satisfied through other parties (such as our vendors) who purchase supplies from our non-U.S. customers. In certain cases, penalties could be imposed if we do not meet our industrial participation commitments. During 2018, we incurred no such penalties. As of December 31, 2018, we have outstanding industrial participation agreements totaling $18.4 billion that extend through 2030. Purchase order commitments associated with industrial participation agreements are included in purchase obligations in the table above. To be eligible for such a purchase order commitment from us, a non-U.S. supplier must have sufficient capability to meet our requirements and must be competitive in cost, quality and schedule.

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Commercial Commitments

The following table summarizes our commercial commitments outstanding as of December 31, 2018.

(Dollars in millions)	Total Amounts Committed/Maximum Amount of Loss	Less than 1 year	1-3 years	4-5 years	After 5 years
Standby letters of credit and surety bonds	$3,761	$1,274	$1,703	$1	$783
Commercial aircraft financing commitments	19,462	2,331	6,216	5,189	5,726
Total commercial commitments	$23,223	$3,605	$7,919	$5,190	$6,509

Commercial aircraft financing commitments include commitments to provide financing related to aircraft on order, under option for deliveries or proposed as part of sales campaigns or refinancing with respect to delivered aircraft, based on estimated earliest potential funding dates. Based on historical experience, we anticipate that we will not be required to fund a significant portion of our financing commitments. However, there can be no assurances that we will not be required to fund greater amounts than historically required, particularly if the Export-Import Bank of the United States continues to be unable to, or does not, provide new financing support. See Note 14 to our Consolidated Financial Statements.

Contingent Obligations

We have significant contingent obligations that arise in the ordinary course of business, which include the following:

Legal Various legal proceedings, claims and investigations are pending against us. Legal contingencies are discussed in Note 22 to our Consolidated Financial Statements.

Environmental Remediation We are involved with various environmental remediation activities and have recorded a liability of $555 million at December 31, 2018. For additional information, see Note 14 to our Consolidated Financial Statements.

Off-Balance Sheet Arrangements

We are a party to certain off-balance sheet arrangements including certain guarantees. For discussion of these arrangements, see Note 15 to our Consolidated Financial Statements.

Non-GAAP Measures

Core Operating Earnings, Core Operating Margin and Core Earnings Per Share

Our Consolidated Financial Statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) which we supplement with certain non-GAAP financial information. These non-GAAP measures should not be considered in isolation or as a substitute for the related GAAP measures, and other companies may define such measures differently. We encourage investors to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. Core operating earnings, core operating margin and core earnings per share exclude the FAS/CAS service cost adjustment. The FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments. Core earnings per share excludes both the FAS/CAS service cost adjustment and non-operating pension and postretirement expenses. Non-operating pension and postretirement expenses represent the components of net periodic benefit costs other than service cost. Pension costs, comprising service and prior service costs computed in accordance with GAAP are allocated to BCA and certain BGS businesses supporting commercial customers. Pension costs allocated to BDS and BGS businesses supporting government customers are computed in accordance with U.S. Government Cost Accounting Standards (CAS), which employ different actuarial assumptions and accounting conventions than GAAP. CAS costs are allocable to government contracts. Other postretirement benefit costs are allocated to all business segments based on CAS, which is generally based on benefits paid.

The Pension FAS/CAS service cost adjustment recognized in earnings during 2018 was a benefit of $1,005 million, largely consistent with a benefit of $1,127 million in 2017 and $1,029 million in 2016. The non-operating pension expense included in Other income/(loss), net was a benefit of $143 million in 2018 and $117 million in 2017, compared with an expense of $327 million in 2016. The benefits in 2018 and 2017 reflect expected returns in excess of interest cost and amortization of actuarial losses. The expense in 2016 reflects the amortization of non-service costs previously capitalized as inventory in prior years, primarily interest cost and amortization of actuarial losses in excess of expected returns.

For further discussion of pension and other postretirement costs see the Management's Discussion and Analysis on page 21 of this Form 10-K and see Note 23 to our Consolidated Financial Statements.

Management uses core operating earnings, core operating margin and core earnings per share for purposes of evaluating and forecasting underlying business performance. Management believes these core earnings measures provide investors additional insights into operational performance as unallocated pension and other postretirement benefit cost, primarily represent costs driven by market factors and costs not allocable to U.S. government contracts.

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Reconciliation of GAAP Measures to Non-GAAP Measures

The table below reconciles the non-GAAP financial measures of core operating earnings, core operating margin and core earnings per share with the most directly comparable GAAP financial measures of earnings from operations, operating margins and diluted earnings per share.

(Dollars in millions, except per share data)

Years ended December 31,	**2018**	2017	2016
Revenues	**$101,127**	$94,005	$93,496
Earnings from operations, as reported	**$11,987**	$10,344	$6,527
Operating margins	**11.9 %**	11.0 %	7.0 %
Pension FAS/CAS service cost adjustment[1]	**($1,005)**	($1,127)	($1,029)
Postretirement FAS/CAS service cost adjustment[1]	**($322)**	($311)	($328)
FAS/CAS service cost adjustment[1]	**($1,327)**	($1,438)	($1,357)
Core operating earnings (non-GAAP)	**$10,660**	$8,906	$5,170
Core operating margins (non-GAAP)	**10.5 %**	9.5 %	5.5 %
Diluted earnings per share, as reported	**$17.85**	$13.85	$7.83
Pension FAS/CAS service cost adjustment[1]	**($1.71)**	($1.84)	($1.60)
Postretirement FAS/CAS service cost adjustment[1]	**($0.55)**	($0.51)	($0.51)
Non-operating pension expense[2]	**($0.24)**	($0.19)	$0.51
Non-operating postretirement expense[2]	**$0.17**	$0.20	$0.23
Provision for deferred income taxes on adjustments [3]	**$0.49**	$0.82	$0.48
Core earnings per share (non-GAAP)	**$16.01**	$12.33	$6.94
Weighted average diluted shares (in millions)	**586.2**	610.7	643.8

(1) FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments. This adjustment is excluded from Core operating earnings (non-GAAP).

(2) Non-operating pension and postretirement expenses represent the components of net periodic benefit costs other than service cost. These expenses are included in Other income/(loss), net and are excluded from Core earnings per share (non-GAAP).

(3) The income tax impact is calculated using the U.S. corporate statutory tax rate.

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Other

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 and Section 13(r) of the Securities Exchange Act of 1934, as amended, require disclosure of certain activities, transactions or dealings relating to Iran that occurred during the period covered by this report. Disclosure is required even if the activities, transactions or dealings were conducted in compliance with applicable law. In connection with the U.S. withdrawal from the Joint Comprehensive Plan of Action (Iran Nuclear Agreement), we engaged in activities during the third quarter that were required to unwind and terminate all agreements with Iranian airlines entered into prior to the withdrawal. These activities were authorized by a license from the U.S. Office of Foreign Assets Control (OFAC), and generated no revenues or profits. In addition, during the fourth quarter Iran Aseman Airlines requested Boeing support, and we replied that the current laws of the United States do not permit Boeing to provide any services, parts, or aircraft without a license from OFAC.

Critical Accounting Policies

Accounting for long-term contracts

Substantially all contracts at BDS, certain military derivative aircraft contracts at BCA and certain contracts at BGS are long-term contracts. Our long-term contracts typically represent a single distinct performance obligation due to the highly interdependent and interrelated nature of the underlying goods and/or services and the significant service of integration that we provide.

Accounting for long-term contracts involves a judgmental process of estimating the total sales, costs, and profit for each performance obligation. Cost of sales is recognized as incurred and revenue is determined by adding a proportionate amount of the estimated profit to the amount reported as cost of sales.

Due to the size, duration and nature of many of our long-term contracts, the estimation of total sales and costs through completion is complicated and subject to many variables. Total sales estimates are based on negotiated contract prices and quantities, modified by our assumptions regarding contract options, change orders, incentive and award provisions associated with technical performance, and price adjustment clauses (such as inflation or index-based clauses). The majority of these long-term contracts are with the U.S. government where the price is generally based on estimated cost to produce the product or service plus profit. Federal Acquisition Regulations provide guidance on the types of cost that will be reimbursed in establishing contract price. Total cost estimates are largely based on negotiated or estimated purchase contract terms, historical performance trends, business base and other economic projections. Factors that influence these estimates include inflationary trends, technical and schedule risk, internal and subcontractor performance trends, business volume assumptions, asset utilization, and anticipated labor agreements.

Revenue and cost estimates for all significant long-term contract performance obligations are reviewed and reassessed quarterly. Changes in these estimates could result in recognition of cumulative catch-up adjustments to the performance obligation’s inception to date revenues, cost of sales and profit, in the period in which such changes are made. Changes in revenue and cost estimates could also result in a reach-forward loss or an adjustment to a reach-forward loss, which would be recorded immediately in earnings. For the years ended December 31, 2018 and 2016 net unfavorable cumulative catch-up adjustments, including reach-forward losses, across all long-term contracts decreased Earnings from operations by $190 million and $263 million. For the year ended December 31, 2017, net favorable cumulative catch-up adjustments, including reach-forward losses, across all long-term contracts increased Earnings from operations by $250 million.

Due to the significance of judgment in the estimation process described above, it is likely that materially different earnings could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions/estimates, supplier performance, or circumstances

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may adversely or positively affect financial performance in future periods. If the combined gross margin for all long-term contract performance obligations for all of 2018 had been estimated to be higher or lower by 1%, it would have increased or decreased pre-tax income for the year by approximately $297 million. In addition, a number of our fixed price development contracts are in a reach-forward loss position. Changes to estimated losses are recorded immediately in earnings.

Program Accounting

Program accounting requires the demonstrated ability to reliably estimate the relationship of sales to costs for the defined program accounting quantity. A program consists of the estimated number of units (accounting quantity) of a product to be produced in a continuing, long-term production effort for delivery under existing and anticipated contracts. The determination of the accounting quantity is limited by the ability to make reasonably dependable estimates of the revenue and cost of existing and anticipated contracts. For each program, the amount reported as cost of sales is determined by applying the estimated cost of sales percentage for the total remaining program to the amount of sales recognized for airplanes delivered and accepted by the customer.

Factors that must be estimated include program accounting quantity, sales price, labor and employee benefit costs, material costs, procured part costs, major component costs, overhead costs, program tooling and other non-recurring costs, and warranty costs. Estimation of the accounting quantity for each program takes into account several factors that are indicative of the demand for the particular program, such as firm orders, letters of intent from prospective customers, and market studies. Total estimated program sales are determined by estimating the model mix and sales price for all unsold units within the accounting quantity, added together with the sales prices for all undelivered units under contract. The sales prices for all undelivered units within the accounting quantity include an escalation adjustment for inflation that is updated quarterly. Cost estimates are based largely on negotiated and anticipated contracts with suppliers, historical performance trends, and business base and other economic projections. Factors that influence these estimates include production rates, internal and subcontractor performance trends, customer and/or supplier claims or assertions, asset utilization, anticipated labor agreements, and inflationary or deflationary trends.

To ensure reliability in our estimates, we employ a rigorous estimating process that is reviewed and updated on a quarterly basis. Changes in estimates are normally recognized on a prospective basis; however, when estimated costs to complete a program exceed estimated revenues from undelivered units in the accounting quantity, a loss provision is recorded in the current period for the estimated loss on all undelivered units in the accounting quantity. For example, in 2016, we recorded a reach-forward loss of $1,258 million on the 747 program.

The program method of accounting allocates tooling and other non-recurring and production costs over the accounting quantity for each program. Because of the higher unit production costs experienced at the beginning of a new program and substantial investment required for initial tooling and other non-recurring costs, new commercial aircraft programs, such as the 787 and 777X programs, typically have lower initial margins than established programs. In addition, actual costs incurred for earlier units in excess of the estimated average cost of all units in the program accounting quantity are included within program inventory as deferred production costs. Deferred production, unamortized tooling and other non-recurring costs are expected to be fully recovered when all units in the accounting quantity are delivered as the expected unit cost for later deliveries is below the estimated average cost as learning curve and other improvements are realized.

Due to the significance of judgment in the estimation process described above, it is reasonably possible that changes in underlying circumstances or assumptions could have a material effect on program gross margins. If the combined gross margin percentages for our commercial airplane programs had been estimated to be 1% higher or lower it would have a similar effect on the Commercial Airplane segment’s

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operating margins. For the year ended December 31, 2018, a 1% increase or decrease in operating margins for our Commercial Airplane segment would have a $607 million impact on operating earnings.

Goodwill and Indefinite-Lived Intangible Impairments

We test goodwill for impairment by performing a qualitative assessment or using a two-step impairment process. If we choose to perform a qualitative assessment, we evaluate economic, industry and company-specific factors as an initial step in assessing the fair value of operations. If we determine it is more likely than not that the carrying value of the net assets is more than the fair value of the related operations, the two-step impairment process is then performed; otherwise, no further testing is required. For operations where the two-step impairment process is used, we first compare the book value of net assets to the fair value of the related operations. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment.

We estimate the fair values of the related operations using discounted cash flows. Forecasts of future cash flows are based on our best estimate of future sales and operating costs, based primarily on existing firm orders, expected future orders, contracts with suppliers, labor agreements and general market conditions. Changes in these forecasts could significantly change the amount of impairment recorded, if any.

The cash flow forecasts are adjusted by an appropriate discount rate derived from our market capitalization plus a suitable control premium at the date of evaluation. Therefore, changes in the stock price may also affect the amount of impairment recorded, if any.

We completed our assessment of goodwill as of April 1, 2018 and determined that there is no impairment of goodwill. As of December 31, 2018, we estimated that the fair value of each reporting unit significantly exceeded its corresponding carrying value. Changes in our forecasts, or decreases in the value of our common stock could cause book values of certain operations to exceed their fair values which may result in goodwill impairment charges in future periods.

As of December 31, 2018 and 2017, we had $490 million of indefinite-lived intangible assets related to the Jeppesen and Aviall brand and trade names acquired in business combinations. We test these intangibles for impairment by comparing their carrying value to current projections of discounted cash flows attributable to the brand and trade names. Any excess carrying value over the amount of discounted cash flows represents the amount of the impairment. A 10% decrease in the discounted cash flows would not impact the carrying value of these indefinite-lived intangible assets.

Pension Plans

The majority of our employees have earned benefits under defined benefit pension plans. Nonunion and the majority of union employees that had participated in defined benefit pension plans transitioned to a company-funded defined contribution retirement savings plan in 2016. Additional union employees transitioned to company-funded defined contribution retirement savings plans effective January 1, 2019. Accounting rules require an annual measurement of our projected obligation and plan assets. These measurements are based upon several assumptions, including the discount rate and the expected long-term rate of asset return. Future changes in assumptions or differences between actual and expected outcomes can significantly affect our future annual expense, projected benefit obligation and Shareholders' equity.

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The following table shows the sensitivity of our pension plan liability and net periodic cost to a 25 basis point change in the discount rate as of December 31, 2018.

(Dollars in millions)	Change in discount rate Increase 25 bps	Change in discount rate Decrease 25 bps
Pension plans		
Projected benefit obligation	($1,947)	$2,408
Net periodic pension cost	(30)	29

Pension cost is also sensitive to changes in the expected long-term rate of asset return. A decrease or increase of 25 basis points in the expected long-term rate of asset return would have increased or decreased 2018 net periodic pension cost by $154 million.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We have financial instruments that are subject to interest rate risk, principally fixed-rate debt obligations, and customer financing assets and liabilities. Additionally, BCC uses interest rate swaps with certain debt obligations to manage exposure to interest rate changes. Historically, we have not experienced material gains or losses on our customer financing assets and liabilities due to interest rate changes. As of December 31, 2018, the impact over the next 12 months of a 100 basis point rise in interest rates to our pre-tax earnings would not be significant. The investors in our fixed-rate debt obligations do not generally have the right to demand we pay off these obligations prior to maturity. Therefore, exposure to interest rate risk is not believed to be material for our fixed-rate debt.

Foreign Currency Exchange Rate Risk

We are subject to foreign currency exchange rate risk relating to receipts from customers and payments to suppliers in foreign currencies. We use foreign currency forward contracts to hedge the price risk associated with firmly committed and forecasted foreign denominated payments and receipts related to our ongoing business. Foreign currency forward contracts are sensitive to changes in foreign currency exchange rates. At December 31, 2018, a 10% increase or decrease in the exchange rate in our portfolio of foreign currency contracts would have increased or decreased our unrealized losses by $262 million. Consistent with the use of these contracts to neutralize the effect of exchange rate fluctuations, such unrealized losses or gains would be offset by corresponding gains or losses, respectively, in the remeasurement of the underlying transactions being hedged. When taken together, these forward currency contracts and the offsetting underlying commitments do not create material market risk.

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Item 8. Financial Statements and Supplementary Data
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The Boeing Company and Subsidiaries
Consolidated Statements of Operations
(Dollars in millions, except per share data)

Years ended December 31,	**2018**	2017	2016
Sales of products	**$90,229**	$83,740	$83,198
Sales of services	**10,898**	10,265	10,298
Total revenues	**101,127**	94,005	93,496
Cost of products	**(72,922)**	(68,879)	(71,013)
Cost of services	**(8,499)**	(7,663)	(7,954)
Boeing Capital interest expense	**(69)**	(70)	(59)
Total costs and expenses	**(81,490)**	(76,612)	(79,026)
	19,637	17,393	14,470
Income from operating investments, net	**111**	204	303
General and administrative expense	**(4,567)**	(4,095)	(3,613)
Research and development expense, net	**(3,269)**	(3,179)	(4,626)
Gain/(loss) on dispositions, net	**75**	21	(7)
Earnings from operations	**11,987**	10,344	6,527
Other income/(loss), net	**92**	123	(438)
Interest and debt expense	**(475)**	(360)	(306)
Earnings before income taxes	**11,604**	10,107	5,783
Income tax expense	**(1,144)**	(1,649)	(749)
Net earnings	**$10,460**	$8,458	$5,034
Basic earnings per share	**$18.05**	$14.03	$7.92
Diluted earnings per share	**$17.85**	$13.85	$7.83

See Notes to the Consolidated Financial Statements on pages 54 – 113.

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The Boeing Company and Subsidiaries
Consolidated Statements of Comprehensive Income
(Dollars in millions)

Years ended December 31,	**2018**	2017	2016
Net earnings	**$10,460**	$8,458	$5,034
Other comprehensive income/(loss), net of tax:			
Currency translation adjustments	**(86)**	128	(104)
Unrealized gain/(loss) on certain investments, net of tax of ($1), ($1) and $1	**2**	1	(2)
Derivative instruments:			
Unrealized (loss)/gain arising during period, net of tax of $40, ($66), and $4	**(146)**	119	(8)
Reclassification adjustment for loss included in net earnings, net of tax of ($8), ($28), and ($43)	**30**	52	78
Total derivative instruments, net of tax	**(116)**	171	70
Defined benefit pension plans & other postretirement benefits:			
Net actuarial gain/(loss) arising during the period, net of tax of ($105), $248, and $752	**384**	(495)	(1,365)
Amortization of actuarial losses included in net periodic pension cost, net of tax of ($242), ($272), and ($288)	**878**	542	524
Settlements and curtailments included in net income, net of tax of ($2), $0, and ($7)	**8**		14
Pension and postretirement benefit/(cost) related to our equity method investments, net of tax ($6), $5, and ($7)	**22**	(11)	12
Amortization of prior service credits included in net periodic pension cost, net of tax of $39, $59, and $31	**(143)**	(117)	(57)
Prior service cost arising during the period, net of tax of ($94), ($14), and ($18)	**341**	28	33
Total defined benefit pension plans & other postretirement benefits, net of tax	**1,490**	(53)	(839)
Other comprehensive income/(loss), net of tax	**1,290**	247	(875)
Comprehensive loss related to noncontrolling interests	**(21)**	(2)	(1)
Comprehensive income, net of tax	**$11,729**	$8,703	$4,158

See Notes to the Consolidated Financial Statements on pages 54 – 113.

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The Boeing Company and Subsidiaries
Consolidated Statements of Financial Position
(Dollars in millions, except per share data)

December 31,	**2018**	2017
Assets		
Cash and cash equivalents	**$7,637**	$8,813
Short-term and other investments	**927**	1,179
Accounts receivable, net	**3,879**	2,894
Unbilled receivables, net	**10,025**	8,194
Current portion of customer financing, net	**460**	309
Inventories	**62,567**	61,388
Other current assets	**2,335**	2,417
Total current assets	**87,830**	85,194
Customer financing, net	**2,418**	2,756
Property, plant and equipment, net	**12,645**	12,672
Goodwill	**7,840**	5,559
Acquired intangible assets, net	**3,429**	2,573
Deferred income taxes	**284**	321
Investments	**1,087**	1,260
Other assets, net of accumulated amortization of $503 and $482	**1,826**	2,027
Total assets	**$117,359**	$112,362
Liabilities and equity		
Accounts payable	**$12,916**	$12,202
Accrued liabilities	**14,808**	13,069
Advances and progress billings	**50,676**	48,042
Short-term debt and current portion of long-term debt	**3,190**	1,335
Total current liabilities	**81,590**	74,648
Deferred income taxes	**1,736**	2,188
Accrued retiree health care	**4,584**	5,545
Accrued pension plan liability, net	**15,323**	16,471
Other long-term liabilities	**3,059**	2,015
Long-term debt	**10,657**	9,782
Shareholders' equity:		
Common stock, par value $5.00 – 1,200,000,000 shares authorized; 1,012,261,159 shares issued	**5,061**	5,061
Additional paid-in capital	**6,768**	6,804
Treasury stock, at cost	**(52,348)**	(43,454)
Retained earnings	**55,941**	49,618
Accumulated other comprehensive loss	**(15,083)**	(16,373)
Total shareholders' equity	**339**	1,656
Noncontrolling interests	**71**	57
Total equity	**410**	1,713
Total liabilities and equity	**$117,359**	$112,362

See Notes to the Consolidated Financial Statements on pages 54 – 113.

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The Boeing Company and Subsidiaries
Consolidated Statements of Cash Flows

(Dollars in millions)

Years ended December 31,	**2018**	2017	2016
Cash flows – operating activities:			
Net earnings	**$10,460**	$8,458	$5,034
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Non-cash items –			
Share-based plans expense	**202**	202	190
Depreciation and amortization	**2,114**	2,047	1,889
Investment/asset impairment charges, net	**93**	113	90
Customer financing valuation (benefit)/expense	**(3)**	2	(7)
(Gain)/loss on dispositions, net	**(75)**	(21)	7
Other charges and credits, net	**247**	293	371
Changes in assets and liabilities –			
Accounts receivable	**(795)**	(840)	326
Unbilled receivables	**(1,826)**	(1,600)	792
Advances and progress billings	**2,636**	4,700	(1,362)
Inventories	**568**	(1,403)	4,004
Other current assets	**98**	(19)	(200)
Accounts payable	**2**	130	622
Accrued liabilities	**1,117**	335	312
Income taxes receivable, payable and deferred	**(180)**	656	(734)
Other long-term liabilities	**87**	94	(68)
Pension and other postretirement plans	**(153)**	(582)	153
Customer financing, net	**120**	1,041	(662)
Other	**610**	(260)	(261)
Net cash provided by operating activities	**15,322**	13,346	10,496
Cash flows – investing activities:			
Property, plant and equipment additions	**(1,722)**	(1,739)	(2,613)
Property, plant and equipment reductions	**120**	92	38
Acquisitions, net of cash acquired	**(3,230)**	(324)	(297)
Contributions to investments	**(2,607)**	(3,569)	(1,719)
Proceeds from investments	**2,898**	3,607	1,206
Purchase of distribution rights	**(69)**	(131)	
Other	**(11)**	6	7
Net cash used by investing activities	**(4,621)**	(2,058)	(3,378)
Cash flows – financing activities:			
New borrowings	**8,548**	2,077	1,325
Debt repayments	**(7,183)**	(953)	(1,359)
Repayments of distribution rights and other asset financing			(24)
Contributions from noncontrolling interests	**35**		
Stock options exercised	**81**	311	321
Employee taxes on certain share-based payment arrangements	**(257)**	(132)	(93)
Common shares repurchased	**(9,000)**	(9,236)	(7,001)
Dividends paid	**(3,946)**	(3,417)	(2,756)
Net cash used by financing activities	**(11,722)**	(11,350)	(9,587)
Effect of exchange rate changes on cash and cash equivalents	**(53)**	80	(33)
Net (decrease) / increase in cash & cash equivalents, including restricted	**(1,074)**	18	(2,502)

Cash & cash equivalents, including restricted, at beginning of year	**8,887**	8,869	11,371
Cash & cash equivalents, including restricted, at end of year	**7,813**	8,887	8,869
Less restricted cash & cash equivalents, included in Investments	**176**	74	68
Cash and cash equivalents at end of year	**$7,637**	$8,813	$8,801

See Notes to the Consolidated Financial Statements on pages 54 – 113.

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The Boeing Company and Subsidiaries
Consolidated Statements of Equity

(Dollars in millions, except per share data)	Boeing shareholders Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total
Balance at January 1, 2016	$5,061	$4,834	($29,568)	$39,657	($12,748)	$62	$7,298
Net earnings				5,034		(1)	5,033
Other comprehensive income, net of tax of $425					(875)		(875)
Share-based compensation and related dividend equivalents		244		(35)			209
Excess tax pools		(84)					(84)
Treasury shares issued for stock options exercised, net		(63)	383				320
Treasury shares issued for other share-based plans, net		(169)	89				(80)
Common shares repurchased			(7,001)				(7,001)
Cash dividends declared ($4.69 per share)				(2,902)			(2,902)
Changes in noncontrolling interests						(1)	(1)
Balance at December 31, 2016	$5,061	$4,762	($36,097)	$41,754	($13,623)	$60	$1,917
Net earnings				8,458		(2)	8,456
Impact of ASU 2018-02				2,997	(2,997)		—
Other comprehensive loss, net of tax of ($69)					247		247
Share-based compensation and related dividend equivalents		238		(35)			203
Treasury shares issued for stock options exercised, net		(88)	399				311
Treasury shares issued for other share-based plans, net		(190)	62				(128)
Treasury shares contributed to pension plans		2,082	1,418				3,500
Common shares repurchased			(9,236)				(9,236)
Cash dividends declared ($5.97 per share)				(3,556)			(3,556)
Changes in noncontrolling interests						(1)	(1)
Balance at December 31, 2017	$5,061	$6,804	($43,454)	$49,618	($16,373)	$57	$1,713
Net earnings				**10,460**		**(21)**	**10,439**
Other comprehensive income, net of tax of ($379)					**1,290**		**1,290**
Share-based compensation and related dividend equivalents		**238**		**(36)**			**202**
Treasury shares issued for stock options exercised, net		**(45)**	**126**				**81**
Treasury shares issued for other share-based plans, net		**(229)**	**(20)**				**(249)**
Common shares repurchased			**(9,000)**				**(9,000)**
Cash dividends declared ($7.19 per share)				**(4,101)**			**(4,101)**
Changes in noncontrolling interests						**35**	**35**
Balance at December 31, 2018	**$5,061**	**$6,768**	**($52,348)**	**$55,941**	**($15,083)**	**$71**	**$410**

See Notes to the Consolidated Financial Statements on pages 54 –113.

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The Boeing Company and Subsidiaries
Notes to the Consolidated Financial Statements
Summary of Business Segment Data
(Dollars in millions)

Years ended December 31,	**2018**	2017	2016
Revenues:			
Commercial Airplanes	**$60,715**	$58,014	$59,378
Defense, Space & Security	**23,195**	20,561	20,180
Global Services	**17,018**	14,581	13,819
Boeing Capital	**274**	307	298
Unallocated items, eliminations and other	**(75)**	542	(179)
Total revenues	**$101,127**	$94,005	$93,496
Earnings from operations:			
Commercial Airplanes	**$7,879**	$5,452	$1,981
Defense, Space & Security	**1,594**	2,193	1,678
Global Services	**2,522**	2,246	2,159
Boeing Capital	**79**	114	59
Segment operating profit	**12,074**	10,005	5,877
Unallocated items, eliminations and other	**(1,414)**	(1,099)	(707)
FAS/CAS service cost adjustment	**1,327**	1,438	1,357
Earnings from operations	**11,987**	10,344	6,527
Other income/(loss), net	**92**	123	(438)
Interest and debt expense	**(475)**	(360)	(306)
Earnings before income taxes	**11,604**	10,107	5,783
Income tax expense	**(1,144)**	(1,649)	(749)
Net earnings	**$10,460**	$8,458	$5,034

This information is an integral part of the Notes to the Consolidated Financial Statements. See Note 23 for further segment results.

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The Boeing Company and Subsidiaries
Notes to the Consolidated Financial Statements
Years ended December 31, 2018, 2017 and 2016
(Dollars in millions, except per share data)
Note 1 – Summary of Significant Accounting Policies
Principles of Consolidation and Basis of Presentation
The Consolidated Financial Statements included in this report have been prepared by management of The Boeing Company (herein referred to as “Boeing,” the “Company,” “we,” “us,” or “our”). These statements include the accounts of all majority-owned subsidiaries and variable interest entities that are required to be consolidated. All significant intercompany accounts and transactions have been eliminated. As described in Note 23, effective July 1, 2017, we now operate in four reportable segments: Commercial Airplanes (BCA); Defense, Space & Security (BDS), Global Services (BGS), and Boeing Capital (BCC). Amounts in prior periods have been reclassified to conform to the current year presentation.
Use of Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
Operating Cycle
For classification of certain current assets and liabilities, we use the duration of the related contract or program as our operating cycle, which is generally longer than one year.
Standards Issued and Implemented
In the first quarter of 2018, we adopted the following Accounting Standards Updates (ASUs): ASU 2014-09, *Revenue from Contracts with Customers (Topic 606);* ASU 2017-07,*Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost;* ASU 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash;* ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.*
The impact of the adoption of these standards to our Consolidated Financial Statements is presented in Note 2 and the additional disclosures are shown in Notes 9 and 23.
ASU 2014-09 In the first quarter of 2018, we adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the full retrospective method. Topic 606 requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services.
Most of our defense contracts at our BDS and BGS segments and certain military derivative aircraft contracts at our BCA segment now recognize revenue under the new standard as costs are incurred. Under previous GAAP, revenue was generally recognized when deliveries were made, performance milestones were attained, or as costs were incurred. The new standard accelerates the timing of when the revenue is recognized, however, it does not change the total amount of revenue recognized on these contracts. The new standard does not affect revenue recognition or the use of program accounting for commercial airplane contracts in our BCA business. We continue to recognize revenue for these contracts

at the point in time when the customer accepts delivery of the airplane. The adoption resulted in a cumulative adjustment to increase Retained earnings by $901 at January 1, 2016, an increase of $139 to Net earnings for the year ended December 31, 2016, and an increase of $261 to Net earnings for the year ended December 31, 2017.

ASU 2017-07 In the first quarter of 2018, we adopted ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard requires non-service cost components of net periodic benefit cost to be presented in non-operating earnings using a retrospective transition method. We applied a practical expedient as the estimation basis for the reclassification of prior period non-service cost components of net periodic benefit cost from Earnings from operations to Other income/(loss), net. Through the end of 2017, a portion of net periodic pension and other postretirement income or expense was not recognized in net earnings in the year incurred because it was allocated to production as product costs, and reflected in inventory at the end of the reporting periods. Effective January 1, 2018, in accordance with our adoption of ASU 2017-07, only service costs may be allocated to production costs and capitalized in inventory on a prospective basis. The impact of adoption was not material.

ASU 2016-18 In the first quarter of 2018, we adopted ASU 2016-18**,** *Statement of Cash Flows (Topic 230): Restricted Cash.* The standard requires companies to include restricted amounts with Cash & cash equivalents when reconciling the beginning and end of period total amounts shown on the Statements of Cash Flows. The impact of adoption was not material.

ASU 2018-02 In the first quarter of 2018, we early adopted ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* The standard allows companies to reclassify from Accumulated other comprehensive income/loss to Retained earnings the difference between the historical corporate income tax rate of 35% and the 21% rate enacted in the Tax Cuts and Jobs Act (TCJA) in December 2017. This resulted in an increase of $2,997 to Retained earnings and an increase of $2,997 to Accumulated other comprehensive loss.

Revenue and Related Cost Recognition

Commercial aircraft contracts The majority of our BCA segment revenue is derived from commercial aircraft contracts. For each contract, we determine the transaction price based on the consideration expected to be received. We allocate the transaction price to each commercial aircraft performance obligation based on relative standalone selling prices adjusted by an escalation formula as specified in the customer agreement. Revenue is recognized for each commercial aircraft performance obligation at the point in time when the aircraft is completed and accepted by the customer. We use program accounting to determine the amount reported as cost of sales.

Where an aircraft is still in our possession, and title and risk of loss has passed to the customer (known as a bill-and-hold arrangement), revenue will be recognized when all specific requirements for transfer of control under a bill-and-hold arrangement have been met.

Payments for commercial aircraft sales are received in accordance with the customer agreement, which generally includes a deposit upon order and additional payments in accordance with a payment schedule, with the balance being due immediately prior to or at aircraft delivery. Advances and progress billings (contract liabilities) are normal and customary for commercial aircraft contracts and not considered a significant financing component as they are intended to protect us from the other party failing to adequately complete some or all of its obligations under the contract.

Long-term contracts Substantially all contracts at BDS, certain military derivative aircraft contracts at BCA and certain contracts at BGS are long-term contracts with the U.S. government and other customers that generally extend over several years. Products sales under long-term contracts primarily include fighter

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jets, rotorcraft, cybersecurity products, surveillance suites, advanced weapons, missile defense, military derivative aircraft, satellite systems, and modification of commercial passenger aircraft to cargo freighters. Services sales under long-term contracts primarily include support and maintenance agreements associated with our commercial and defense products and space travel on Commercial Crew.

For each long-term contract, we determine the transaction price based on the consideration expected to be received. We allocate the transaction price to each distinct performance obligation to deliver a good or service, or a collection of goods and/or services, based on the relative standalone selling prices. A long-term contract will typically represent a single distinct performance obligation due to the highly interdependent and interrelated nature of the underlying goods and/or services and the significant service of integration that we provide. While the scope and price on certain long-term contracts may be modified over their life, the transaction price is based on current rights and obligations under the contract and does not include potential modifications until they are agreed upon with the customer. When applicable, a cumulative adjustment or separate recognition for the additional scope and price may result. Long-term contracts can be negotiated with a fixed price or a price in which we are reimbursed for costs incurred plus an agreed upon profit. The Federal Acquisition Regulations provide guidance on the types of cost that will be reimbursed in establishing the price for contracts with the U.S. government. Certain long-term contracts include in the transaction price variable consideration, such as incentive and award fees, if specified targets are achieved. The amount included in the transaction price represents the expected value, based on a weighted probability, or the most likely amount.

Long-term contract revenue is recognized over the contract term (over time) as the work progresses, either as products are produced or as services are rendered. We generally recognize revenue over time as we perform on long-term contracts because of continuous transfer of control to the customer. For U.S. government contracts, this continuous transfer of control to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. Similarly, for non-U.S. government contracts, the customer typically controls the work in process as evidenced either by contractual termination clauses or by our rights to payment of the transaction price associated with work performed to date on products or services that do not have an alternative use to the Company.

The accounting for long-term contracts involves a judgmental process of estimating total sales, costs and profit for each performance obligation. Cost of sales is recognized as incurred. The amount reported as revenues is determined by adding a proportionate amount of the estimated profit to the amount reported as cost of sales. Recognizing revenue as costs are incurred provides an objective measure of progress on the long-term contract and thereby best depicts the extent of transfer of control to the customer.

Changes in estimated revenues, cost of sales and the related effect on operating income are recognized using a cumulative catch-up adjustment which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a long-term contract’s percentage-of-completion. When the current estimates of total sales and costs for a long-term contract indicate a loss, a provision for the entire reach-forward loss on the long-term contract is recognized.

Net cumulative catch-up adjustments to prior years' revenue and earnings, including certain reach-forward losses, across all long-term contracts were as follows:

	2018	2017	2016
Increase to Revenue	**$137**	$559	$394
Increase/(decrease) to Earnings from Operations	**($190)**	$250	($263)
Increase/(decrease) to Diluted EPS	**($0.29)**	$0.34	($0.36)

Significant adjustments during the three years ended December 31, 2018 included reach-forward losses of $736, $445 and $1,127 on the USAF KC-46A Tanker contract recorded during 2018, 2017 and 2016.

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Due to the significance of judgment in the estimation process changes in underlying assumptions/estimates, supplier performance, or circumstances may adversely or positively affect financial performance in future periods.

Payments under long-term contracts may be received before or after revenue is recognized. The U.S. government customer typically withholds payment of a small portion of the contract price until contract completion. Therefore, long-term contracts typically generate Unbilled receivables (contract assets) but may generate Advances and progress billings (contract liabilities). Long-term contract Unbilled receivables and Advances and progress billings are not considered a significant financing component because they are intended to protect either the customer or the Company in the event that some or all of the obligations under the contract are not completed.

Commercial spare parts contracts Certain contracts at our BGS segment include sales of commercial spare parts. For each contract, we determine the transaction price based on the consideration expected to be received. The spare parts have discrete unit prices that represent fair value. We generally consider each spare part to be a separate performance obligation. Revenue is recognized for each commercial spare part performance obligation at the point in time of delivery to the customer. We may provide our customers with a right to return a commercial spare part where a customer may receive a full or partial refund, a credit applied to amounts owed, a different product in exchange, or any combination of these items. We consider the potential for customer returns in the estimated transaction price. The amount reported as cost of sales is recorded at average cost. Payments for commercial spare parts sales are typically received shortly after delivery.

Other service revenue contracts Certain contracts at our BGS segment are for sales of services to commercial customers including maintenance, training, data analytics and information-based services. We recognize revenue for these service performance obligations over time as the services are rendered. The method of measuring progress (such as straight-line or billable amount) varies depending upon which method best depicts the transfer of control to the customer based on the type of service performed. Cost of sales is recorded as incurred.

Concession Sharing Arrangements We account for sales concessions to our customers in consideration of their purchase of products and services as a reduction of the transaction price and the revenue that is recognized for the related performance obligations. The sales concessions incurred may be partially reimbursed by certain suppliers in accordance with concession sharing arrangements. We record these reimbursements, which are presumed to represent reductions in the price of the vendor’s products or services, as a reduction in Cost of products.

Unbilled Receivables and Advances and Progress Billings

Unbilled receivables (contract assets) arise when the Company recognizes revenue for amounts which cannot yet be billed under terms of the contract with the customer. Advances and progress billings (contract liabilities) arise when the Company receives payments from customers in advance of recognizing revenue. The amount of Unbilled receivables or Advances and progress billings is determined for each contract.

Financial Services Revenue We record financial services revenue associated with sales-type/finance leases, operating leases, and notes receivable.

Lease and financing revenue arrangements are included in Sales of services on the Consolidated Statements of Operations. For sales-type/finance leases, we record an asset at lease inception. This asset is recorded at the aggregate of future minimum lease payments, estimated residual value of the leased equipment, and deferred incremental direct costs less unearned income. Income is recognized over the life of the lease to approximate a level rate of return on the net investment. Residual values, which are reviewed periodically, represent the estimated amount we expect to receive at lease termination from the disposition of the leased equipment. Actual residual values realized could differ from these estimates.

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Declines in estimated residual value that are deemed other-than-temporary are recognized in the period in which the declines occur.

For operating leases, revenue on leased aircraft and equipment is recorded on a straight-line basis over the term of the lease. Operating lease assets, included in Customer financing, are recorded at cost and depreciated over the period that we project we will hold the asset to an estimated residual value, using the straight-line method. We periodically review our estimates of residual value and recognize forecasted changes by prospectively adjusting depreciation expense.

For notes receivable, notes are recorded net of any unamortized discounts and deferred incremental direct costs. Interest income and amortization of any discounts are recorded ratably over the related term of the note.

Reinsurance Revenue Our wholly-owned insurance subsidiary, Astro Ltd., participates in a reinsurance pool for workers' compensation. The member agreements and practices of the reinsurance pool minimize any participating members' individual risk. Reinsurance revenues were$145, $141 and $147 during 2018, 2017 and 2016, respectively. Reinsurance costs related to premiums and claims paid to the reinsurance pool were $136, $144 and $139 during 2018, 2017 and 2016, respectively. Revenues and costs are presented net in Cost of sales in the Consolidated Statements of Operations.

Fleet Support

We provide assistance and support to facilitate efficient and safe aircraft operation to the operators of all our commercial airplane models. Collectively known as fleet support, these activities and support services include flight and maintenance training, field service support, engineering support, and technical data and documents. Fleet support activity begins prior to aircraft delivery as the customer receives training, manuals, and technical consulting support. This activity continues throughout the aircraft's operational life. Services provided after delivery include field service support, consulting on maintenance, repair, and operational issues brought forth by the customer or regulators, updating manuals and engineering data, and the issuance of service bulletins that impact the entire model's fleet. Field service support involves our personnel located at customer facilities providing and coordinating fleet support activities and requests. The costs for fleet support are expensed as incurred as Cost of services.

Research and Development

Research and development includes costs incurred for experimentation, design, and testing, as well as bid and proposal efforts related to government products and services which are expensed as incurred unless the costs are related to certain contractual arrangements with customers. Costs that are incurred pursuant to such contractual arrangements are recorded over the period that revenue is recognized, consistent with our contract accounting policy. We have certain research and development arrangements that meet the requirement for best efforts research and development accounting. Accordingly, the amounts funded by the customer are recognized as an offset to our research and development expense rather than as contract revenues. Research and development expense included bid and proposal costs of $234, $288 and $311 in 2018, 2017 and 2016, respectively.

Share-Based Compensation

We provide various forms of share-based compensation to our employees. For awards settled in shares, we measure compensation expense based on the grant-date fair value net of estimated forfeitures. For awards settled in cash, or that may be settled in cash, we measure compensation expense based on the fair value at each reporting date net of estimated forfeitures. The expense is recognized over the requisite service period, which is generally the vesting period of the award.

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Income Taxes

Provisions for U.S. federal, state and local, and non-U.S. income taxes are calculated on reported Earnings before income taxes based on current tax law and also include, in the current period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. Significant judgment is required in determining income tax provisions and evaluating tax positions.

The accounting for uncertainty in income taxes requires a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We record a liability for the difference between the benefit recognized and measured for financial statement purposes and the tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. Tax-related interest and penalties are classified as a component of Income tax expense.

Postretirement Plans

The majority of our employees have earned benefits under defined benefit pension plans. Nonunion and the majority of union employees that had participated in defined benefit pension plans transitioned to a company-funded defined contribution retirement savings plan in 2016. We also provide postretirement benefit plans other than pensions, consisting principally of health care coverage to eligible retirees and qualifying dependents. Benefits under the pension and other postretirement benefit plans are generally based on age at retirement and years of service and, for some pension plans, benefits are also based on the employee’s annual earnings. The net periodic cost of our pension and other postretirement plans is determined using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate, the long-term rate of asset return, and medical trend (rate of growth for medical costs). A portion of the service cost component of net periodic pension and other postretirement income or expense is not recognized in net earnings in the year incurred because it is allocated to production as product costs, and reflected in inventory at the end of a reporting period. Actuarial gains and losses, which occur when actual experience differs from actuarial assumptions, are reflected in Shareholders’ equity (net of taxes). If actuarial gains and losses exceed ten percent of the greater of plan assets or plan liabilities we amortize them over the average future service period of employees. The funded status of our pension and postretirement plans is reflected on the Consolidated Statements of Financial Position.

Postemployment Plans

We record a liability for postemployment benefits, such as severance or job training, when payment is probable, the amount is reasonably estimable, and the obligation relates to rights that have vested or accumulated.

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Environmental Remediation

We are subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. We routinely assess, based on in-depth studies, expert analyses and legal reviews, our contingencies, obligations, and commitments for remediation of contaminated sites, including assessments of ranges and probabilities of recoveries from other responsible parties and/or insurance carriers. Our policy is to accrue and charge to current expense identified exposures related to environmental remediation sites when it is probable that a liability has been incurred and the amount can be reasonably estimated. The amount of the liability is based on our best estimate or the low end of a range of reasonably possible exposure for investigation, cleanup, and monitoring costs to be incurred. Estimated remediation costs are not discounted to present value as the timing of payments cannot be reasonably estimated. We may be able to recover a portion of the remediation costs from insurers or other third parties. Such recoveries are recorded when realization of the claim for recovery is deemed probable.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid instruments, such as commercial paper, time deposits, and other money market instruments, which have original maturities of three months or less. We aggregate our cash balances by bank where conditions for right of set-off are met, and reclassify any negative balances, consisting mainly of uncleared checks, to Accounts payable. Negative balances reclassified to Accounts payable were $127 and $116 at December 31, 2018 and 2017.

Inventories

Inventoried costs on commercial aircraft programs and long-term contracts include direct engineering, production and tooling and other non-recurring costs, and applicable overhead, which includes fringe benefits, production related indirect and plant management salaries and plant services, not in excess of estimated net realizable value. To the extent a material amount of such costs are related to an abnormal event or are fixed costs not appropriately attributable to our programs or contracts, they are expensed in the current period rather than inventoried. Inventoried costs include amounts relating to programs and contracts with long-term production cycles, a portion of which is not expected to be realized within one year. Included in inventory for federal government contracts is an allocation of allowable costs related to manufacturing process reengineering.

Commercial aircraft programs inventory includes deferred production costs and supplier advances. Deferred production costs represent actual costs incurred for production of early units that exceed the estimated average cost of all units in the program accounting quantity. Higher production costs are experienced at the beginning of a new or derivative airplane program. Units produced early in a program require substantially more effort (labor and other resources) than units produced later in a program because of volume efficiencies and the effects of learning. We expect that these deferred costs will be fully recovered when all units included in the accounting quantity are delivered as the expected unit cost for later deliveries is below the estimated average cost of all units in the program. Supplier advances represent payments for parts we have contracted to receive from suppliers in the future. As parts are received, supplier advances are amortized to work in process.

The determination of net realizable value of long-term contract costs is based upon quarterly reviews that estimate costs to be incurred to complete all contract requirements. When actual contract costs and the estimate to complete exceed total estimated contract revenues, a loss provision is recorded. The determination of net realizable value of commercial aircraft program costs is based upon quarterly program reviews that estimate revenue and cost to be incurred to complete the program accounting quantity. When estimated costs to complete exceed estimated program revenues to go, a program loss provision is recorded in the current period for the estimated loss on all undelivered units in the accounting quantity.

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Used aircraft purchased by the Commercial Airplanes segment and general stock materials are stated at cost not in excess of net realizable value. See ‘Aircraft Valuation’ within this Note for a discussion of our valuation of used aircraft. Spare parts inventory is stated at lower of average unit cost or net realizable value. We review our commercial spare parts and general stock materials quarterly to identify impaired inventory, including excess or obsolete inventory, based on historical sales trends, expected production usage, and the size and age of the aircraft fleet using the part. Impaired inventories are charged to Cost of products in the period the impairment occurs.

Included in inventory for commercial aircraft programs are amounts paid or credited in cash, or other consideration to certain airline customers, that are referred to as early issue sales consideration. Early issue sales consideration is recognized as a reduction to revenue when the delivery of the aircraft under contract occurs. If an airline customer does not perform and take delivery of the contracted aircraft, we believe that we would have the ability to recover amounts paid. However, to the extent early issue sales consideration exceeds advances and is not considered to be otherwise recoverable, it would be written off in the current period.

Precontract Costs

We may, from time to time, incur costs in excess of the amounts required for existing contracts. If we determine the costs are probable of recovery from future orders, then we capitalize the precontract costs we incur, excluding start-up costs which are expensed as incurred. Capitalized precontract costs are included in Inventories in the accompanying Consolidated Statements of Financial Position. Should future orders not materialize or we determine the costs are no longer probable of recovery, the capitalized costs would be written off.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including applicable construction-period interest, less accumulated depreciation and are depreciated principally over the following estimated useful lives: new buildings and land improvements, from 10 to 40 years; and new machinery and equipment, from 4 to 20 years. The principal methods of depreciation are as follows: buildings and land improvements, 150% declining balance; and machinery and equipment, sum-of-the-years’ digits. Capitalized internal use software is included in Other assets and amortized using the straight line method over 5 years. Capitalized software as a service is included in Other assets and amortized using the straight line method over the term of the hosting arrangement which is typically no greater than 5 years. We periodically evaluate the appropriateness of remaining depreciable lives assigned to long-lived assets, including assets that may be subject to a management plan for disposition.

Long-lived assets held for sale are stated at the lower of cost or fair value less cost to sell. Long-lived assets held for use are subject to an impairment assessment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying value is no longer recoverable based upon the undiscounted future cash flows of the asset, the amount of the impairment is the difference between the carrying amount and the fair value of the asset.

Asset Retirement Obligations

We record all known asset retirement obligations for which the liability’s fair value can be reasonably estimated, including certain asbestos removal, asset decommissioning and contractual lease restoration obligations. Recorded amounts are not material.

We also have known conditional asset retirement obligations, such as certain asbestos remediation and asset decommissioning activities to be performed in the future, that are not reasonably estimable due to insufficient information about the timing and method of settlement of the obligation. Accordingly, these obligations have not been recorded in the Consolidated Financial Statements. A liability for these obligations will be recorded in the period when sufficient information regarding timing and method of settlement becomes available to make a reasonable estimate of the liability's fair value. In addition, there may be conditional asset retirement obligations that we have not yet discovered (e.g. asbestos may exist in certain buildings but we have not become aware of it through the normal course of business), and therefore, these obligations also have not been included in the Consolidated Financial Statements.

Goodwill and Other Acquired Intangibles

Goodwill and other acquired intangible assets with indefinite lives are not amortized, but are tested for impairment annually and when an event occurs or circumstances change such that it is more likely than not that an impairment may exist. Our annual testing date is April 1.

We test goodwill for impairment by performing a qualitative assessment or using a two-step impairment process. If we choose to perform a qualitative assessment and determine it is more likely than not that the carrying value of the net assets is more than the fair value of the related operations, the two-step impairment process is then performed; otherwise, no further testing is required. For operations where the two-step impairment process is used, we first compare the carrying value of net assets to the fair value of the related operations. If the fair value is determined to be less than carrying value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment.

Indefinite-lived intangibles consist of brand and trade names acquired in business combinations. We test these intangibles for impairment by comparing their carrying value to current projections of discounted cash flows attributable to the brand and trade names. Any excess carrying value over the amount of discounted cash flows represents the amount of the impairment.

Our finite-lived acquired intangible assets are amortized on a straight-line basis over their estimated useful lives as follows: developed technology, from 4 to 14 years; product know-how, from 6 to 30 years; customer base, from 3 to 17 years; distribution rights, from 3 to 27 years; and other, from 2 to 32 years. We evaluate the potential impairment of finite-lived acquired intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying value is no longer recoverable based upon the undiscounted future cash flows of the asset, the amount of the impairment is the difference between the carrying amount and the fair value of the asset.

Investments

Time deposits are held-to-maturity investments that are carried at cost.

Available-for-sale debt securities include commercial paper, U.S. government agency securities, and corporate debt securities. Available-for-sale debt securities are recorded at fair value, and unrealized gains and losses are recorded, net of tax, as a component of accumulated other comprehensive income. Realized gains and losses on available-for-sale debt securities are recognized based on the specific identification method. Available-for-sale debt securities are assessed for impairment quarterly.

The equity method of accounting is used to account for investments for which we have the ability to exercise significant influence, but not control, over an investee. Significant influence is generally deemed to exist if we have an ownership interest in the voting stock of an investee of between 20% and 50%. The cumulative earnings approach is used for cash flow classification of distributions received from equity method investments.

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Other Equity investments are recorded at fair value, with gains and losses recorded through net earnings. Equity investments without readily determinable fair value are measured at cost, less impairments, plus or minus observable price changes. Equity investments without readily determinable fair value are assessed for impairment quarterly.

We classify investment income and loss on our Consolidated Statements of Operations based on whether the investment is operating or non-operating in nature. Operating investments align strategically and are integrated with our operations. Earnings from operating investments, including our share of income or loss from equity method investments, dividend income from other equity investments, and any impairments or gain/loss on the disposition of these investments, are recorded in Income from operating investments, net. Non-operating investments are those we hold for non-strategic purposes. Earnings from non-operating investments, including interest and dividends on marketable securities, and any impairments or gain/loss on the disposition of these investments are recorded in Other income/(loss), net.

Derivatives

All derivative instruments are recognized in the financial statements and measured at fair value regardless of the purpose or intent of holding them. We use derivative instruments to principally manage a variety of market risks. For derivatives designated as hedges of the exposure to changes in fair value of the recognized asset or liability or a firm commitment (referred to as fair value hedges), the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The effect of that accounting is to include in earnings the extent to which the hedge is not effective in achieving offsetting changes in fair value. For our cash flow hedges, the effective portion of the derivative’s gain or loss is initially reported in comprehensive income and is subsequently reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The ineffective portion of the gain or loss of a cash flow hedge is reported in earnings immediately. We have agreements to purchase and sell aluminum to address long-term strategic sourcing objectives and international business requirements. These agreements are derivatives for accounting purposes but are not designated for hedge accounting treatment. We also hold certain derivative instruments for economic purposes that are not designated for hedge accounting treatment. For these aluminum agreements and for other derivative instruments not designated for hedge accounting treatment, the changes in their fair value are recorded in earnings immediately.

Aircraft Valuation

Used aircraft under trade-in commitments and aircraft under repurchase commitments In conjunction with signing a definitive agreement for the sale of new aircraft (Sale Aircraft), we have entered into trade-in commitments with certain customers that give them the right to trade in used aircraft at a specified price upon the purchase of Sale Aircraft. Additionally, we have entered into contingent repurchase commitments with certain customers wherein we agree to repurchase the Sale Aircraft at a specified price, generally 10 to 15 years after delivery of the Sale Aircraft. Our repurchase of the Sale Aircraft is contingent upon a future, mutually acceptable agreement for the sale of additional new aircraft. If we execute an agreement for the sale of additional new aircraft, and if the customer exercises its right to sell the Sale Aircraft to us, a contingent repurchase commitment would become a trade-in commitment. Our historical experience is that contingent repurchase commitments infrequently become trade-in commitments.

Exposure related to trade-in commitments may take the form of:

(1) adjustments to revenue for the difference between the contractual trade-in price in the definitive agreement and our best estimate of the fair value of the trade-in aircraft as of the date of such agreement, which would be recognized upon delivery of the Sale Aircraft, and/or

(2) charges to cost of products for adverse changes in the fair value of trade-in aircraft that occur subsequent to signing of a definitive agreement for Sale Aircraft but prior to the purchase of the used trade-in aircraft. Estimates based on current aircraft values would be included in Accrued liabilities.

The fair value of trade-in aircraft is determined using aircraft-specific data such as model, age and condition, market conditions for specific aircraft and similar models, and multiple valuation sources. This process uses our assessment of the market for each trade-in aircraft, which in most instances begins years before the return of the aircraft. There are several possible markets in which we continually pursue opportunities to place used aircraft. These markets include, but are not limited to, the resale market, which could potentially include the cost of long-term storage; the leasing market, with the potential for refurbishment costs to meet the leasing customer’s requirements; or the scrap market. Trade-in aircraft valuation varies significantly depending on which market we determine is most likely for each aircraft. On a quarterly basis, we update our valuation analysis based on the actual activities associated with placing each aircraft into a market or using current published third-party aircraft valuations based on the type and age of the aircraft, adjusted for individual attributes and known conditions.

Used aircraft acquired by the Commercial Airplanes segment are included in Inventories at the lower of cost or net realizable value as it is our intent to sell these assets. To mitigate costs and enhance marketability, aircraft may be placed on operating lease. While on operating lease, the assets are included in Customer financing.

Customer financing Customer financing includes operating lease equipment, notes receivable, and sales-type/finance leases. Sales-type/finance leases are treated as receivables, and allowances for losses are established as necessary.

We assess the fair value of the assets we own, including equipment under operating leases, assets held for sale or re-lease, and collateral underlying receivables, to determine if their fair values are less than the related assets’ carrying values. Differences between carrying values and fair values of sales-type/finance leases and notes and other receivables, as determined by collateral value, are considered in determining the allowance for losses on receivables.

We use a median calculated from published collateral values from multiple third-party aircraft value publications based on the type and age of the aircraft to determine the fair value of aircraft. Under certain circumstances, we apply judgment based on the attributes of the specific aircraft or equipment, usually when the features or use of the aircraft vary significantly from the more generic aircraft attributes covered by outside publications.

Impairment review for assets under operating leases and held for sale or re-lease We evaluate for impairment assets under operating lease or assets held for sale or re-lease when events or changes in circumstances indicate that the expected undiscounted cash flow from the asset may be less than the carrying value. We use various assumptions when determining the expected undiscounted cash flow, including our intentions for how long we will hold an asset subject to operating lease before it is sold, the expected future lease rates, lease terms, residual value of the asset, periods in which the asset may be held in preparation for a follow-on lease, maintenance costs, remarketing costs and the remaining economic life of the asset. We record assets held for sale at the lower of carrying value or fair value less costs to sell.

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When we determine that impairment is indicated for an asset, the amount of impairment expense recorded is the excess of the carrying value over the fair value of the asset.

Allowance for losses on customer financing receivables We record the potential impairment of customer financing receivables in a valuation account, the balance of which is an accounting estimate of probable but unconfirmed losses. The allowance for losses on receivables relates to two components of receivables: (a) receivables that are evaluated individually for impairment and (b) all other receivables.

We determine a receivable is impaired when, based on current information and events, it is probable that we will be unable to collect amounts due according to the original contractual terms of the receivable agreement, without regard to any subsequent restructurings. Factors considered in assessing collectability include, but are not limited to, a customer's extended delinquency, requests for restructuring and filings for bankruptcy. We determine a specific impairment allowance based on the difference between the carrying value of the receivable and the estimated fair value of the related collateral we would expect to realize.

We review the adequacy of the allowance attributable to the remaining receivables (after excluding receivables subject to a specific impairment allowance) by assessing both the collateral exposure and the applicable cumulative default rate. Collateral exposure for a particular receivable is the excess of the carrying value of the receivable over the fair value of the related collateral. A receivable with an estimated fair value in excess of the carrying value is considered to have no collateral exposure. The applicable cumulative default rate is determined using two components: customer credit ratings and weighted average remaining contract term. Internally assigned credit ratings, our credit quality indicator, are determined for each customer in the portfolio. Those ratings are updated based upon public information and information obtained directly from our customers.

We have entered into agreements with certain customers that would entitle us to look beyond the specific collateral underlying the receivable for purposes of determining the collateral exposure as described above. Should the proceeds from the sale of the underlying collateral asset resulting from a default condition be insufficient to cover the carrying value of our receivable (creating a shortfall condition), these agreements would, for example, permit us to take the actions necessary to sell or retain certain other assets in which the customer has an equity interest and use the proceeds to cover the shortfall.

Each quarter we review customer credit ratings, published historical credit default rates for different rating categories, and multiple third-party aircraft value publications as a basis to validate the reasonableness of the allowance for losses on receivables. There can be no assurance that actual results will not differ from estimates or that the consideration of these factors in the future will not result in an increase or decrease to the allowance for losses on receivables.

Warranties

In conjunction with certain product sales, we provide warranties that cover factors such as non-conformance to specifications and defects in material and design. The majority of our warranties are issued by our Commercial Airplanes segment. Generally, aircraft sales are accompanied by a 3 to 4-year standard warranty for systems, accessories, equipment, parts, and software manufactured by us or manufactured to certain standards under our authorization. These warranties are included in the programs' estimate at completion. On occasion we have made commitments beyond the standard warranty obligation to correct fleet-wide major issues of a particular model, resulting in additional accrued warranty expense. Warranties issued by our BDS segment principally relate to sales of military aircraft and weapons hardware and are included in the contract cost estimates. These sales are generally accompanied by a six month to two-year warranty period and cover systems, accessories, equipment, parts, and software manufactured by us to certain contractual specifications. Estimated costs related to standard warranties are recorded in the period in which the related product delivery occurs. The warranty liability recorded at each balance sheet date reflects the estimated number of months of warranty coverage outstanding for products delivered

times the average of historical monthly warranty payments, as well as additional amounts for certain major warranty issues that exceed a normal claims level. Estimated costs of these additional warranty issues are considered changes to the initial liability estimate.

We provide guarantees to certain commercial airplane customers which include compensation provisions for failure to meet specified aircraft performance targets. We account for these performance guarantees as warranties. The estimated liability for these warranties is based on known and anticipated operational characteristics and forecasted customer operation of the aircraft relative to contractually specified performance targets, and anticipated settlements when contractual remedies are not specified. Estimated payments are recorded as a reduction of revenue at delivery of the related aircraft. We have agreements that require certain suppliers to compensate us for amounts paid to customers for failure of supplied equipment to meet specified performance targets. Claims against suppliers under these agreements are included in Inventories and recorded as a reduction in Cost of products at delivery of the related aircraft. These performance warranties and claims against suppliers are included in the programs' estimate at completion.

Supplier Penalties

We record an accrual for supplier penalties when an event occurs that makes it probable that a supplier penalty will be incurred and the amount is reasonably estimable. Until an event occurs, we fully anticipate accepting all products procured under production-related contracts.

Guarantees

We record a liability in Accrued liabilities for the fair value of guarantees that are issued or modified after December 31, 2002. For credit guarantees, the liability is equal to the present value of the expected loss. We determine the expected loss by multiplying the creditor's default rate by the guarantee amount reduced by the expected recovery, if applicable, for each future period the credit guarantee will be outstanding. If at inception of a guarantee, we determine there is a probable related contingent loss, we will recognize a liability for the greater of (a) the fair value of the guarantee as described above or (b) the probable contingent loss amount.

Standards Issued and Not Yet Implemented

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The new standard is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The standard will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The standard permits two approaches, one requiring retrospective application of the new guidance with restatement of prior years, and one requiring prospective application of the new guidance. We plan to adopt the new lease standard effective January 1, 2019 and apply it prospectively. We do not expect the new lease standard to have a material effect on our financial position, results of operations or cash flows.

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Note 2 - Impact of Adoption of New Standards

In the first quarter of 2018, we adopted the following ASUs: ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606);* ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost;* ASU 2016-18 *Statement of Cash Flows (Topic 230) Restricted Cash; and* ASU 2018-02 *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.*

The impact to our Consolidated Financial Statements as a result of adopting these standards was as follows:

Consolidated Statements of Operations

Years ended December 31	2017			2016		
(Dollars in millions, except per share data)	Reported	Impact of New Standards	**Restated**	Reported	Impact of New Standards	**Restated**
Sales of products	$83,204	$536	**$83,740**	$84,399	($1,201)	**$83,198**
Sales of services	10,188	77	**10,265**	10,172	126	**10,298**
Total revenues	93,392	613	**94,005**	94,571	(1,075)	**93,496**
Cost of products	(68,365)	(514)	**(68,879)**	(72,713)	1,700	**(71,013)**
Cost of services	(7,631)	(32)	**(7,663)**	(8,018)	64	**(7,954)**
Boeing Capital interest expense	(70)		**(70)**	(59)		**(59)**
Total costs and expenses	(76,066)	(546)	**(76,612)**	(80,790)	1,764	**(79,026)**
	17,326	67	**17,393**	13,781	689	**14,470**
Income from operating investments, net	204		**204**	303		**303**
General and administrative expense	(4,094)	(1)	**(4,095)**	(3,616)	3	**(3,613)**
Research and development expense, net	(3,179)		**(3,179)**	(4,627)	1	**(4,626)**
Gain/(loss) on dispositions, net	21		**21**	(7)		**(7)**
Earnings from operations	10,278	66	**10,344**	5,834	693	**6,527**
Other income/(loss), net	129	(6)	**123**	40	(478)	**(438)**
Interest and debt expense	(360)		**(360)**	(306)		**(306)**
Earnings before income taxes	10,047	60	**10,107**	5,568	215	**5,783**
Income tax expense	(1,850)	201	**(1,649)**	(673)	(76)	**(749)**
Net earnings	$8,197	$261	**$8,458**	$4,895	$139	**$5,034**
Basic earnings per share	$13.60	$0.43	**$14.03**	$7.70	$0.22	**$7.92**
Diluted earnings per share	$13.43	$0.42	**$13.85**	$7.61	$0.22	**$7.83**

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Consolidated Statement of Financial Position

(Dollars in millions)	December 31, 2017		
Assets	Reported	Impact of New Standards	**Restated**
Cash and cash equivalents	$8,813		**$8,813**
Short-term and other investments	1,179		**1,179**
Accounts receivable, net	10,516	($7,622)	**2,894**
Unbilled receivables, net		8,194	**8,194**
Current portion of customer financing, net	309		**309**
Inventories	44,344	17,044	**61,388**
Other current assets		2,417	**2,417**
Total current assets	65,161	20,033	**85,194**
Customer financing, net	2,740	16	**2,756**
Property, plant and equipment, net	12,672		**12,672**
Goodwill	5,559		**5,559**
Acquired intangible assets, net	2,573		**2,573**
Deferred income taxes	341	(20)	**321**
Investments	1,260		**1,260**
Other assets, net of accumulated amortization	2,027		**2,027**
Total assets	$92,333	$20,029	**$112,362**
Liabilities and equity			
Accounts payable	$12,202		**$12,202**
Accrued liabilities	15,292	($2,223)	**13,069**
Advances and billings in excess of related costs	27,440	(27,440)	
Advances and progress billings		48,042	**48,042**
Short-term debt and current portion of long-term debt	1,335		**1,335**
Total current liabilities	56,269	18,379	**74,648**
Deferred income taxes	1,839	349	**2,188**
Accrued retiree health care	5,545		**5,545**
Accrued pension plan liability, net	16,471		**16,471**
Other long-term liabilities	2,015		**2,015**
Long-term debt	9,782		**9,782**
Shareholders' equity:			
Common stock	5,061		**5,061**
Additional paid-in capital	6,804		**6,804**
Treasury stock, at cost	(43,454)		**(43,454)**
Retained earnings	45,320	4,298	**49,618**
Accumulated other comprehensive loss	(13,376)	(2,997)	**(16,373)**
Total shareholders' equity	355	1,301	**1,656**
Noncontrolling interests	57		**57**
Total equity	412	1,301	**1,713**
Total liabilities and equity	$92,333	$20,029	**$112,362**

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Consolidated Statements of Cash Flows

Years ended December 31	2017			2016		
(Dollars in millions)	Reported	Impact of New Standards	**Restated**	Reported	Impact of New Standards	**Restated**
Cash flows - operating activities:						
Net earnings	$8,197	$261	**$8,458**	$4,895	$139	**$5,034**
Adjustments to reconcile net earnings to net cash provided by operating activities:						
Non-cash items -						
Share-based plans expense	202		**202**	190		**190**
Depreciation and amortization	2,069	(22)	**2,047**	1,910	(21)	**1,889**
Investment/asset impairment charges, net	113		**113**	90		**90**
Customer financing valuation expense/(benefit)	2		**2**	(7)		**(7)**
(Gain)/loss on dispositions, net	(21)		**(21)**	7		**7**
Other charges and credits, net	287	6	**293**	369	2	**371**
Changes in assets and liabilities -						
Accounts receivable	(1,821)	981	**(840)**	112	214	**326**
Unbilled receivables		(1,600)	**(1,600)**		792	**792**
Advances and progress billings		4,700	**4,700**		(1,362)	**(1,362)**
Inventories	(1,085)	(318)	**(1,403)**	3,755	249	**4,004**
Other current assets		(19)	**(19)**		(200)	**(200)**
Accounts payable	130		**130**	622		**622**
Accrued liabilities	573	(238)	**335**	726	(414)	**312**
Advances and billings in excess of related costs	3,570	(3,570)		(493)	493	
Income taxes receivable, payable and deferred	857	(201)	**656**	(810)	76	**(734)**
Other long-term liabilities	94		**94**	(68)		**(68)**
Pension and other postretirement plans	(582)		**(582)**	153		**153**
Customer financing, net	1,017	24	**1,041**	(696)	34	**(662)**
Other	(258)	(2)	**(260)**	(256)	(5)	**(261)**
Net cash provided by operating activities	13,344	2	**13,346**	10,499	(3)	**10,496**
Cash flows - investing activities:						
Property, plant and equipment additions	(1,739)		**(1,739)**	(2,613)		**(2,613)**
Property, plant and equipment reductions	92		**92**	38		**38**
Acquisitions, net of cash acquired	(324)		**(324)**	(297)		**(297)**
Contributions to investments	(3,601)	32	**(3,569)**	(1,719)		**(1,719)**
Proceeds from investments	3,639	(32)	**3,607**	1,209	(3)	**1,206**
Purchase of distribution rights	(131)		**(131)**			
Other	2	4	**6**	2	5	**7**
Net cash used by investing activities	(2,062)	4	**(2,058)**	(3,380)	2	**(3,378)**
Cash flows - financing activities:						
New borrowings	2,077		**2,077**	1,325		**1,325**
Debt repayments	(953)		**(953)**	(1,359)		**(1,359)**
Repayments of distribution rights and other asset financing				(24)		**(24)**
Stock options exercised	311		**311**	321		**321**
Employee taxes on certain share-based payment arrangements	(132)		**(132)**	(93)		**(93)**
Common shares repurchased	(9,236)		**(9,236)**	(7,001)		**(7,001)**
Dividends paid	(3,417)		**(3,417)**	(2,756)		**(2,756)**
Net cash used by financing activities	(11,350)		**(11,350)**	(9,587)		**(9,587)**
Effect of exchange rate changes on cash & cash equivalents, including restricted	80		**80**	(33)		**(33)**
Net increase/(decrease) in cash & cash equivalents, including restricted	12	6	**18**	(2,501)	(1)	**(2,502)**

Cash & cash equivalents, including restricted*, at beginning of year	8,801	68	**8,869**	11,302	69	**11,371**
Cash & cash equivalents, including restricted*, at end of year	8,813					