BOEING CO
Form 10-K
February 12, 2018

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, 2017
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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 ¨ No x
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 ¨ (Do not check if a smaller reporting company)	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, 2017, there were 593,198,552 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 $117.3 billion.

The number of shares of the registrant’s common stock outstanding as of February 5, 2018 was 588,490,313.

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, 2017.

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THE BOEING COMPANY
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For the Fiscal Year Ended December 31, 2017

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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 the 787-10 and 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 global strike, including fighter aircraft and missile systems; vertical lift, including rotorcraft and tilt-rotor aircraft; mobility, surveillance and engagement, including battle management, airborne, anti-submarine, transport 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 79% of its 2017 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: EA-18G Growler Airborne Electronic Attack, F/A-18E/F Super Hornet, F-15 Strike Eagle, P-8 programs, and KC-46A Tanker. 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, 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. This segment offers aviation services support, aircraft modifications, spare parts, training, maintenance documents, data analytics and information-based services, and technical advice to commercial and government customers worldwide.

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In addition, BGS sustains aircraft and systems with a full spectrum of products and services through integrated logistics, including supply chain management and engineering support; maintenance, modification and upgrades for aircraft; and training systems and government services, including pilot and maintenance training. Major defense programs supported include the C-17 Globemaster III, F-15 Strike Eagle, F/A-18E/F Super Hornet, and AH-64 Apache for domestic and international customers.

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.

Financial and Other Business Information

See the Summary of Business Segment Data and Note 21 to our Consolidated Financial Statements for financial information, including revenues and earnings from operations, for each of our business segments.

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.

Non-U.S. Revenues

See Note 21 to our Consolidated Financial Statements for information regarding non-U.S. revenues.

Research and Development

Research and development (R&D) expenditures involve experimentation, design, development and related test activities for defense systems, new and derivative jet aircraft including both commercial and military, advanced space and other company-sponsored product development. R&D expenditures are expensed as incurred including amounts allocable as reimbursable overhead costs on U.S. government contracts.

Our total research and development expense, net amounted to $3.2 billion, $4.6 billion and $3.3 billion in 2017, 2016 and 2015, respectively.

Research and development costs also include bid and proposal efforts related to government products and services, as well as costs incurred in excess of amounts estimated to be recoverable under cost-sharing research and development agreements. Bid and proposal costs were $288 million, $311 million and $286 million in 2017, 2016 and 2015, respectively.

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Employees

Total workforce level at December 31, 2017 was approximately 140,800. As of December 31, 2017, 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)	21%	We have two major agreements; one expiring in June 2022 and one in September 2024.
The Society of Professional Engineering Employees in Aerospace (SPEEA)	12%	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, Embraer and Bombardier, 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 2018.

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 2018, 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.

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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 framework would allow us to pursue rights to contribution from other PRPs. For additional information relating to environmental contingencies, see Note 11 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, 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

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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. These reports may also be obtained at the SEC’s public reference room at 100 F Street, N.E., Washington, D.C. 20549. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including Boeing.

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 expressions 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.

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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 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 787-10, and 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 787-10 and 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.

In addition, significant budgetary delays and constraints have already resulted in reduced spending levels, and additional reductions may be forthcoming. The Budget Control Act of 2011 (The Act) established limits on U.S. government discretionary spending, including a reduction of defense spending between the 2012 and 2021 U.S. government fiscal years. Accordingly, long-term uncertainty remains with respect to overall levels of defense spending 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 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, CH-47 Chinook, AH-64 Apache, KC-46A Tanker and P-8 programs, in the final FY2017 appropriation and in their FY2018 bills, uncertainty remains about how defense budgets in FY2018 and beyond will affect Boeing’s programs. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions 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.

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

In 2017, 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 2017 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 2017, we recorded reach-forward losses totaling $471 million on the USAF KC-46A Tanker contract, primarily driven by additional costs attributable to certification and incorporating changes into low rate initial production (LRIP) aircraft. 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

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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, 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 2017 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 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. 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

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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 41 – 43 and Note 1 to our Consolidated Financial Statements on pages 52 – 64 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. 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.

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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 2017, non-U.S. customers, which includes FMS, accounted for approximately 55% 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;
- 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

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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.

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, 2017 and 2016, our airplane financing commitments totaled $10,221 million and $14,847 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. 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.

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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 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 52,000 employees, which constitute 37% of our total workforce, were union represented as of December 31, 2017. 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 10 U.S. labor organizations and 7 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

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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 43 of this Form 10-K. Although 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.

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 11 to our Consolidated Financial Statements.
Item 1B. Unresolved Staff Comments
Not applicable

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Item 2. Properties

We occupied approximately 85 million square feet of floor space on December 31, 2017 for manufacturing, warehousing, engineering, administration and other productive uses, of which approximately 96% was located in the United States. The following table provides a summary of the floor space by business as of December 31, 2017:

(Square feet in thousands)	Owned	Leased	Government Owned[1]	Total
Commercial Airplanes	41,115	2,455		43,570
Defense, Space & Security	26,449	5,390		31,839
Global Services	681	5,274		5,955
Other[2]	2,448	915	305	3,668
Total	70,693	14,034	305	85,032

[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, 2017, we occupied in excess of 77.8 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; Dallas, TX; and Mesa, AZ
- Other – Chicago, IL; Greater Seattle, WA; 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 20 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 5, 2018, there were 108,310 shareholders of record. Additional information required by this item is incorporated by reference from Note 22 to our Consolidated Financial Statements.

Issuer Purchases of Equity Securities

The following table provides information about purchases we made during the quarter ended December 31, 2017 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

(Dollars in millions, except per share data)

	(a)	(b)	(c)	(d)
	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs[2]
10/1/2017 thru 10/31/2017	3,860,891	$259.30	3,856,749	$5,501
11/1/2017 thru 11/30/2017	2,806,168	262.85	2,800,181	4,765
12/1/2017 thru 12/31/2017	39,098	276.49		18,000
Total	6,706,157	$260.89	6,656,930	

(1) We purchased an aggregate of 6,656,930 shares of our common stock in the open market pursuant to our repurchase plan and 49,227 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 11, 2017, we announced a new repurchase plan for up to $18 billion of common stock, replacing the plan previously authorized in 2016.

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Item 6. Selected Financial Data

Five-Year Summary (Unaudited)

(Dollars in millions, except per share data)	2017	2016	2015	2014	2013
Revenues	$93,392	$94,571	$96,114	$90,762	$86,623
Net earnings from continuing operations	$8,197	$4,895	$5,176	$5,446	$4,586
Basic earnings per share from continuing operations	$13.60	$7.70	$7.52	$7.47	$6.03
Diluted earnings per share from continuing operations	13.43	7.61	7.44	7.38	5.96
Dividends declared per share[1]	5.97	4.69	3.82	3.10	2.185
Cash and cash equivalents	$8,813	$8,801	$11,302	$11,733	$9,088
Short-term and other investments	1,179	1,228	750	1,359	6,170
Total assets	92,333	89,997	94,408	92,921	90,014
Total debt	11,117	9,952	9,964	9,070	9,635
Operating cash flow	$13,344	$10,499	$9,363	$8,858	$8,179
Total backlog	$488,145	$473,492	$489,299	$502,391	$440,928
Year-end workforce	140,800	150,500	161,400	165,500	168,400

(1) Cash dividends have been paid on common stock every year since 1942.

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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 its 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, defense and space customers through innovative, comprehensive, and cost-competitive product and service solutions. Our strategy also benefits us as the cyclicality of commercial and defense markets sometimes offset. 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,	2017	2016	2015
Revenues	$93,392	$94,571	$96,114
GAAP			
Earnings from operations	10,278	5,834	7,443
Operating margins	11.0 %	6.2 %	7.7 %
Effective income tax rate	18.4 %	12.1 %	27.7 %
Net earnings	$8,197	$4,895	$5,176
Diluted earnings per share	$13.43	$7.61	$7.44
Non-GAAP [1]			
Core operating earnings	$8,970	$5,464	$7,741
Core operating margins	9.6 %	5.8 %	8.1 %
Core earnings per share	$12.04	$7.24	$7.72

(1) These measures exclude certain components of pension and other postretirement benefit expense. See page 39 - 40 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,	2017	2016	2015
Commercial Airplanes	$56,729	$58,012	$59,399
Defense, Space & Security	21,057	22,563	23,708
Global Services	14,639	13,925	13,293
Boeing Capital	307	298	413
Unallocated items, eliminations and other	660	(227)	(699)
Total	$93,392	$94,571	$96,114

Revenues in 2017 decreased by $1,179 million or 1% compared with 2016. BCA revenues decreased by $1,283 million or 2% primarily due to delivery mix, with fewer twin aisle deliveries more than offsetting the impact of higher single aisle deliveries. BDS revenues decreased by $1,506 million primarily due to fewer C-17 deliveries, lower milestone revenue on satellite programs, and the mix of deliveries on the Apache and F-15 programs, partially offset by higher volume on various weapons programs. The decreases at BCA and BDS were partially offset by higher unallocated revenue and higher BGS revenue, primarily due to higher commercial parts revenue.

Revenues in 2016 decreased by $1,543 million or 2% compared with 2015. BCA revenues decreased by $1,387 million or 2% due fewer deliveries. BDS revenues decreased by $1,145 million or 5% primarily due to lower milestone revenue on government satellite programs, fewer C-17 deliveries, lower Commercial Crew revenue, as well as timing and mix of CH-47 Chinook deliveries, partially offset by higher revenue on several modifications and upgrades programs. The decreases at BCA and BDS were partially offset by higher BGS revenue, primarily due to higher commercial parts revenue and government services revenue.

The changes in unallocated items, eliminations and other in 2017, 2016 and 2015 primarily reflect the timing of eliminations for intercompany aircraft deliveries and the sale of aircraft previously leased to customers.

Earnings From Operations

The following table summarizes Earnings from operations:

(Dollars in millions)			
Years ended December 31,	2017	2016	2015
Commercial Airplanes	$5,432	$1,995	$4,284
Defense, Space & Security	2,223	1,966	2,312
Global Services	2,256	2,177	1,835
Boeing Capital	114	59	50
Unallocated pension and other postretirement benefit income/(expense)	1,308	370	(298)
Other unallocated items and eliminations	(1,055)	(733)	(740)
Earnings from operations (GAAP)	$10,278	$5,834	$7,443
Unallocated pension and other postretirement benefit	(1,308)	(370)	298
Core operating earnings (Non-GAAP)	$8,970	$5,464	$7,741

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Earnings from operations in 2017 increased by $4,444 million compared with 2016, primarily due to higher earnings at BCA and BDS, and higher unallocated pension income, which more than offset other unallocated items and eliminations. BCA's 2017 earnings increased by $3,437 million primarily reflecting 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. 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 expense.

BDS earnings from operations in 2017 increased by $257 million compared with 2016 primarily due to lower charges on the KC-46A Tanker and Commercial Crew programs, which more than offset the impact of fewer C-17 deliveries and Apache delivery mix.

Earnings from operations in 2016 decreased by $1,609 million compared with 2015 due to lower earnings at BCA, partially offset by the change in unallocated pension and postretirement income/(expense). BCA earnings in 2016 decreased by $2,289 million primarily due to the reclassification of $1,235 million of 787 flight test aircraft costs to research and development and higher reach-forward losses on the 747 and KC-46A Tanker programs. 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. The change in the unallocated pension and postretirement income/(expense) in 2016 was primarily driven by lower service costs and lower amortization of actuarial losses.

During 2017, 2016 and 2015, we recorded reach-forward losses on the KC-46A Tanker program. In 2017, we recorded charges of $471 million, of which $378 million was recorded at BCA and $93 million at BDS. During 2016, we recorded charges of $1,128 million: $772 million at BCA and $356 million at BDS. During 2015, we recorded charges of $835 million: $513 million at BCA and $322 million at BDS. During 2016 and 2015 we recorded reach-forward losses on the 747 program of $1,258 million and $885 million.

Core operating earnings for 2017 increased by $3,506 million compared with 2016 primarily due to lower reach forward losses and the reclassification of costs related to the 787 flight test aircraft in 2016.

Core operating earnings in 2016 decreased by $2,227 million compared with 2015 primarily due to the reclassification of costs related to the 787 flight test aircraft and higher charges on the 747 and KC-46A Tanker programs described above.

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,	2017	2016	2015
Share-based plans	($77)	($66)	($76)
Deferred compensation	(240)	(46)	(63)
Eliminations and other	(738)	(621)	(601)
Sub-total (included in core operating earnings*)	(1,055)	(733)	(740)
Pension	1,120	217	(421)
Postretirement	188	153	123
Pension and other postretirement benefit income/(expense) (excluded from core operating earnings*)	1,308	370	(298)
Total unallocated items, eliminations and other	$253	($363)	($1,038)

* Core operating earnings is a Non-GAAP measure that excludes certain components of pension and other postretirement benefit expense. See pages 39 - 40.

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Deferred compensation expense increased by $194 million in 2017 and decreased by $17 million in 2016, primarily driven by changes in broad stock market conditions and our stock price.
Eliminations and other unallocated expense increased by $117 million in 2017 and increased by $20 million in 2016 primarily due to the timing of the elimination of profit on intercompany aircraft deliveries and expense allocations.
Net periodic benefit cost related to pension totaled $312 million, $523 million and $2,786 million in 2017, 2016 and 2015, respectively. The components of net periodic benefit cost are shown in the following table:

	Pension		
Years ended December 31,	2017	2016	2015
Service cost	$402	$604	$1,764
Interest cost	2,991	3,050	2,990
Expected return on plan assets	(3,847)	(3,999)	(4,031)
Amortization of prior service costs	(39)	38	196
Recognized net actuarial loss	804	790	1,577
Settlement/curtailment/other losses	1	40	290
Net periodic benefit cost	$312	$523	$2,786

The decreases in net periodic pension benefit costs of $211 million in 2017 and of $2,263 million in 2016 are primarily due to lower service costs reflecting the transition of employees in 2016 to defined contribution retirement savings plans. The decrease in 2016 costs is also due to lower amortization of actuarial losses which reflects actuarial gains in 2015 resulting from the year-end discount rate increase from 3.9% to 4.2%.
A portion of net periodic benefit 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. Costs are allocated to the business segments as described in Note 21.

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

(Dollars in millions)	Pension		
Years ended December 31,	2017	2016	2015
Allocated to business segments	($1,759)	($2,196)	($1,945)
Unallocated items, eliminations and other	1,120	217	(421)
Total	($639)	($1,979)	($2,366)

The unallocated pension costs recognized in earnings in 2017 was a benefit of $1,120 million compared with $217 million in 2016. The higher unallocated pension benefit recognized in earnings in 2017 primarily reflects the amortization of pension benefits capitalized as inventory in prior years. The unallocated pension costs recognized in earnings in 2016 was a benefit of $217 million compared with expense of $421 million in 2015. The 2016 benefit reflects the difference between the higher segment allocation compared to the U.S. GAAP net periodic pension costs recognized in earnings in the current period.

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Other Earnings Items

(Dollars in millions)			
Years ended December 31,	2017	2016	2015
Earnings from operations	$10,278	$5,834	$7,443
Other income/(loss), net	129	40	(13)
Interest and debt expense	(360)	(306)	(275)
Earnings before income taxes	10,047	5,568	7,155
Income tax expense	(1,850)	(673)	(1,979)
Net earnings from continuing operations	$8,197	$4,895	$5,176

Other income, net increased by $89 million and $53 million in 2017 and 2016, primarily due to higher gains from foreign exchange and interest income.

Interest and debt expense increased by $54 million in 2017 as a result of lower capitalized interest and increased by $31 million in 2016 as a result of higher average debt balances.

Our effective income tax rates were 18.4%, 12.1% and 27.7% for the years ended December 31, 2017, 2016 and 2015, respectively. The Tax Cuts and Jobs Act, enacted in December 2017, reduced the 2017 effective tax rate by 10.5% and resulted in incremental tax benefits of $1,051 million, primarily related to the remeasurement of our U.S. net deferred tax liabilities to reflect the reduction in the corporate tax rate from 35% to 21%. Our 2016 effective tax rate was lower than the 2015 rate primarily due to lower pre-tax income in 2016 and discrete tax benefits of $617 million recorded in the third quarter of 2016 related to tax basis adjustments and the settlement of the 2011-2012 federal tax audit.

For additional discussion related to Income Taxes, see Note 4 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 Commercial Airplanes segment predominantly uses program accounting to account for cost of sales, BDS predominantly uses contract accounting and BGS uses contract accounting for defense contracts. 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. Under contract accounting, the amount reported as cost of sales is determined by applying the estimated cost of sales percentage to the amount of revenue recognized.

The following table summarizes cost of sales:

(Dollars in millions)						
Years ended December 31,	2017	2016	Change	2016	2015	Change
Cost of sales	$76,066	$80,790	($4,724)	$80,790	$82,088	($1,298)
Cost of sales as a % of revenues	81.4 %	85.4 %	(4.0 %)	85.4 %	85.4 %	0.0 %

Cost of sales in 2017 decreased by $4,724 million, or 6%, compared with 2016, primarily due to lower reach-forward losses, delivery model mix at BCA and improved performance at BCA and BDS.

Cost of sales in 2016 decreased by $1,298 million, or 2%, compared with 2015, primarily due to lower volume across all segments, partially offset by the 747 reach-forward losses at BCA.

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

(Dollars in millions)

Years ended December 31,	2017	2016	2015
Commercial Airplanes	$2,247	$3,706	$2,311
Defense, Space & Security	834	815	902
Global Services	140	153	113
Other	(42)	(47)	5
Total	$3,179	$4,627	$3,331

Research and development expense in 2017 decreased by $1,448 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.

Research and development expense in 2016 increased by $1,296 million compared with 2015 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 and higher spending on the 777X.

Backlog

Our backlog at December 31 was as follows:

(Dollars in millions)

Years ended December 31,	2017	2016	2015
Commercial Airplanes	$421,345	$413,036	$429,346
Defense, Space & Security	49,577	44,825	46,933
Global Services	17,223	15,631	13,020
Total Backlog	$488,145	$473,492	$489,299
Contractual backlog	470,241	458,277	476,595
Unobligated backlog	17,904	$15,215	$12,704
Total Backlog	$488,145	$473,492	$489,299

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 2017 was primarily due to orders and funding in excess of deliveries. The decrease in contractual backlog during 2016 was primarily due to deliveries in excess of net orders.

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 2017 and 2016 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 2015, we began work on low rate initial production (LRIP) aircraft for the USAF. During the third quarter of 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. On January 27, 2017, the USAF authorized an additional

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LRIP lot for 15 aircraft valued at $2.1 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. The EMD contract is currently in the certification and flight testing phases and we expect 18 fully operational aircraft to be delivered in 2018.

During 2016 and 2015, we recorded reach-forward losses of $1,128 million and $835 million related to the EMD contract and LRIP aircraft. During 2017, we recorded further reach-forward losses of $471 million primarily reflecting higher estimated costs associated with certification and incorporating changes into LRIP aircraft. As with any development program, this program remains subject to additional reach-forward losses or delivery delays if we experience further production, technical or quality issues, delays in certification and/or flight testing.

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.

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, has returned to the long-term average of approximately 3%. Passenger traffic in 2017 is estimated to grow by more than 7%, exceeding the long-term trend 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 the Asia Pacific regions and Europe, as well as low-cost-carriers globally, are currently leading the growth in passenger traffic. Air cargo traffic growth, building on the recovery that started in 2016, is expected to exceed 9% in 2017, driven by strong trade and industrial production in all regions.

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 2017 are expected to approximate $35 billion, consistent with 2016.

The long-term outlook for the industry continues to remain positive due to the fundamental drivers of air travel growth: 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 $6.1 trillion market for approximately 41,030 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.

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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 91% 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, including Embraer's E-195 in the regional jet market and Bombardier's C Series in the 100-150 seat transcontinental market. 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.

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,	2017	2016	2015
Revenues	$56,729	$58,012	$59,399
% of total company revenues	61 %	61 %	62 %
Earnings from operations	$5,432	$1,995	$4,284
Operating margins	9.6 %	3.4 %	7.2 %
Research and development	$2,247	$3,706	$2,311

Revenues

Commercial Airplanes revenues decreased by $1,283 million or 2% in 2017 compared with 2016 due to delivery mix, with fewer twin aisle deliveries more than offsetting the impact of higher single aisle deliveries. Commercial Airplanes revenues decreased by $1,387 million or 2% in 2016 compared with 2015 primarily due to fewer deliveries.

Commercial Airplanes deliveries as of December 31 were as follows:

	737	*	747	†	767	777	787	Total
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
2015								
Cumulative deliveries	5,713		1,519		1,083	1,361	363	
Deliveries	495	(15)	18	(3)	16	98	135	762

* 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 2017 increased by $3,437 million compared with 2016. The increase in 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.

Earnings from operations in 2016 decreased by $2,289 million compared with 2015. The decrease in earnings and operating margins is primarily due to higher research and development costs of $1,395 million, delivery mix and higher reach-forward losses on the 747 program of $1,258 million compared with $885 million in 2015. Research and development expense in 2016 reflect 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.

Reach-forward losses of $378 million, $772 million and $513 million were recorded related to the KC-46A Tanker in 2017, 2016 and 2015, respectively. During 2016 and 2015, we recorded reach-forward losses on the 747 program of $1,258 million and $885 million.

Backlog

Firm backlog represents orders for products and services 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. Firm backlog excludes options. 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. However, once orders are included in firm backlog, orders remain in backlog until canceled or fulfilled, although the value of orders is adjusted as changes to price and schedule are agreed to with customers.

BCA total backlog was $421,345 million, $413,036 million and $429,346 million at December 31, 2017, 2016 and 2015, respectively. The increase in 2017 was primarily due to net orders in excess of deliveries. The decrease in 2016 was primarily due to deliveries in excess of net orders.

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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.

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
2017						
Program accounting quantities	9,800	1,570	1,171	1,625	**	1,400
Undelivered units under firm orders	4,668	12	98	102	326	658
Cumulative firm orders	11,400	1,554	1,204	1,636	326	1,294
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
2015						
Program accounting quantities	8,400	1,574	1,147	1,650	**	1,300
Undelivered units under firm orders	4,392	20	80	218	306	779
Cumulative firm orders	10,105	1,539	1,163	1,579	306	1,142

* At December 31, 2017, the 747 accounting quantity includes one already completed aircraft which is being remarketed.

** The accounting quantity for the 777X will be determined in the year of first airplane delivery, targeted for 2020.

Program Highlights

737 Program The accounting quantity for the 737 program increased by 800 units during 2017 due to the program's normal progress of obtaining additional orders and delivering airplanes. We are currently producing at a rate of 47 per month and plan to increase to 52 per month in 2018. We plan to further increase the rate to 57 per month in 2019. We delivered the first 737 MAX 8 in May 2017 and announced the launch of the 737 MAX 10 in June 2017.

747 Program During the fourth quarter of 2017, we received firm orders and commitments for 15 aircraft and we increased the program accounting quantity by 15 aircraft. The program accounting quantity now includes aircraft scheduled to be produced through 2021. 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 and 2015, we recorded reach-forward losses of $1,258 million and $885 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 and it is reasonably possible that we could decide to end production of the 747.

767 Program The accounting quantity for the 767 program increased by 12 units during the third quarter of 2017 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. The combined tanker and commercial production rate increased from 2 per month to 2.5 per month in the third quarter of 2017.

777 Program We implemented a planned production rate decrease from 8.3 per month to 7 per month during the first quarter of 2017. We further reduced the rate to 5 per month in the third quarter of 2017. In the fourth quarter of 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 100 units during the third quarter of 2017 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. First delivery of the 787-10 derivative aircraft is targeted for 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

	Go-ahead	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 2017

We launched the 737 MAX 7, 8, 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 787-10 and 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

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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

In November 2017, Congress passed the National Defense Authorization Act for fiscal year 2018 (FY2018), which authorizes a U.S. DoD budget topline higher than the administration’s budget request from May. While the appropriations process for FY2018 remains incomplete, both the House and Senate appropriations committees have also produced bills that increase the U.S. DoD budget topline above the administration’s request. On February 9, 2018, Congress passed a fifth Continuing Resolution that maintains current funding levels through March 23, 2018 and includes increases to the Budget Control Act caps for defense and non-defense spending for FY2018 and FY2019. However, the Budget Control Act continues to mandate limits on U.S. government discretionary spending and remains in effect. As a result, continued budget uncertainty and the risk of future sequestration cuts will remain unless Congress acts to repeal or suspend this law.

Funding timeliness also remains a risk. If Congress is unable to pass appropriations bills or an omnibus spending bill before the expiration of the current Continuing Resolution, a government shutdown could result which may have impacts above and beyond those resulting from budget cuts, sequestration impacts or program-level appropriations. For example, requirements to furlough employees in the U.S. DoD, the Department of Transportation, or other government agencies could result in payment delays, impair our ability to perform work on existing contracts, and/or negatively impact future orders.

In addition, there continues to be uncertainty with respect to program-level appropriations for the U.S. DoD and other government agencies, including the National Aeronautics and Space Administration (NASA), within the overall budgetary framework described above. 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 2017, 40% of BDS backlog was attributable to non-US customers.

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Results of Operations

(Dollars in millions)			
Years ended December 31,	2017	2016	2015
Revenues	$21,057	$22,563	$23,708
% of total company revenues	23 %	24 %	25 %
Earnings from operations	$2,223	$1,966	$2,312
Operating margins	10.6 %	8.7 %	9.8 %

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,	2017	2016	2015
F/A-18 Models	23	25	35
F-15 Models	16	15	12
C-17 Globemaster III		4	5
CH-47 Chinook (New)	9	25	41
CH-47 Chinook (Renewed)	35	25	16
AH-64 Apache (New)	11	31	23
AH-64 Apache (Remanufactured)	57	34	38
P-8 Models	19	18	14
AEW&C			1
C-40A		1	1
Total	170	178	186

New-build satellite deliveries were as follows:

Years ended December 31,	2017	2016	2015
Commercial and civil satellites	3	5	3
Military satellites	1	2	1

Revenues

BDS revenues in 2017 decreased by $1,506 million compared with 2016 primarily due to fewer C-17 deliveries, lower milestone revenue on satellite programs, and the mix of deliveries on the Apache and F-15 programs, partially offset by higher volume on various weapons programs.

BDS revenues in 2016 decreased by $1,145 million compared with 2015 primarily due to lower milestone revenue on government satellite programs, fewer C-17 deliveries, lower Commercial Crew revenue, as well as timing and mix of CH-47 Chinook deliveries, partially offset by higher revenue on several modifications and upgrades programs.

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Earnings From Operations

BDS earnings from operations in 2017 increased by $257 million compared with 2016 primarily due to lower charges on the KC-46A Tanker and Commercial Crew programs, which more than offset the impact of fewer C-17 deliveries and Apache delivery mix. Higher earnings reflect the favorable impact of cumulative catch-up adjustments which were $541 million higher in 2017 than in 2016, primarily driven by lower charges.

BDS earnings from operations in 2016 decreased by $346 million compared with 2015, primarily due to lower earnings on the Commercial Crew program, driven by a charge of $162 million during the third quarter of 2016, as well as lower volume and mix on the CH-47 Chinook program. Lower earnings include the unfavorable impact of cumulative contract catch-up adjustments which were $441 million higher than 2015, primarily due to Commercial Crew charges in 2016 and the absence of favorable F-15 program adjustments recorded in 2015.

BDS earnings from operations include equity earnings of $183 million, $249 million and $202 million primarily from our ULA joint venture in 2017, 2016 and 2015.

During 2017, 2016 and 2015, BDS recorded charges related to the KC-46A Tanker contract of $93 million, $356 million and $322 million.

Backlog

Total backlog of $49,577 million at December 31, 2017 increased by 11% from December 31, 2016, primarily due to current year contract awards for the F-15 and Apache programs, partially offset by revenue recognized on contracts awarded in prior years.

Total backlog of $44,825 million at December 31, 2016 decreased by 4% reflecting revenue recognized on contracts awarded in prior years, partially offset by current year contract awards for satellite, P-8, weapons, Apache and CH-47 Chinook programs.

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. Many of these 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. Examples of significant fixed-price development programs include KC-46A Tanker, Commercial Crew, Saudi F-15, and commercial and military satellites.

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

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United Launch Alliance See the discussion of Indemnifications to ULA and Financing Commitments in Notes 6, 11, and 12 to our Consolidated Financial Statements.
F/A-18 See the discussion of the F/A-18 program in Note 11 to our Consolidated Financial Statements.
Sea Launch See the discussion of the Sea Launch receivables in Note 7 to our Consolidated Financial Statements.
Commercial Crew See the discussion of Fixed-Price Development Contracts in Note 11 to our Consolidated Financial Statements.

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 29, 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.

Results of Operations

(Dollars in millions)

Years ended December 31,	2017		2016		2015	
Revenues	$14,639		$13,925		$13,293	
% of total company revenues	16	%	15	%	14	%
Earnings from operations	$2,256		$2,177		$1,835	
Operating margins	15.4	%	15.6	%	13.8	%

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Revenues

BGS revenues in 2017 increased by $714 million compared with 2016 primarily due to higher commercial parts revenue.

BGS revenues in 2016 increased by $632 million compared with 2015 primarily due to higher commercial parts revenues and government services revenue.

Earnings From Operations

BGS earnings from operations in 2017 increased by $79 million compared with 2016 primarily due to higher revenues, partially offset by commercial services mix. Net favorable cumulative contract catch-up adjustments were $9 million lower in 2017 than in 2016.

BGS earnings from operations in 2016 increased by $342 million compared with 2015 primarily due to higher revenues and favorable mix of commercial parts and government services. Net favorable cumulative contract catch-up adjustments were $12 million higher in 2016 than in 2015.

Backlog

BGS total backlog of $17,223 million at December 31, 2017 increased by 10% from December 31, 2016, primarily due to current year contract awards including F-15, C-17, and Apache support programs.

BGS total backlog of $15,631 million at December 31, 2016 increased by 20% from December 31, 2015 primarily due to current year contract awards including the C-17 support program.

Boeing Capital

Business Environment and Trends

BCC's gross customer financing and investment portfolio at December 31, 2017 totaled $3,006 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 $480 million and $1,376 million during 2017 and 2016. While we may be required to fund a number of new aircraft deliveries in 2018 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 2,000 western-built commercial jet aircraft (8.3% of current world fleet) were parked at the end of 2017, 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 2016 and 2015, 8.8% and 9.5% 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.

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Results of Operations

(Dollars in millions)			
Years ended December 31,	2017	2016	2015
Revenues	$307	$298	$413
Earnings from operations	$114	$59	$50
Operating margins	37 %	20 %	12 %

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 in 2017 were consistent with 2016. BCC's revenues in 2016 decreased by $115 million compared with 2015 primarily due to lower lease income, and lower end of lease settlement payments.

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 2017 increased by $55 million primarily due to lower asset impairment and depreciation expenses. Earnings from operations in 2016 increased by $9 million primarily due to lower asset impairment expense which more than offset lower revenues.

Financial Position

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

(Dollars in millions)	2017	2016
Customer financing and investment portfolio, net	$3,003	$4,109
Other assets, primarily cash and short-term investments	677	346
Total assets	$3,680	$4,455
Other liabilities, primarily deferred income taxes	$653	$1,007
Debt, including intercompany loans	2,523	2,864
Equity	504	584
Total liabilities and equity	$3,680	$4,455
Debt-to-equity ratio	5.0-to-1	4.9-to-1

BCC's customer financing and investment portfolio at December 31, 2017 decreased from December 31, 2016, primarily due to $1,434 million of asset sales, note payoffs, and portfolio run-off, partially offset by new volume. Aircraft subject to leases with a carrying value of approximately $25 million are scheduled to be returned off lease during 2018. 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.

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Liquidity and Capital Resources
Cash Flow Summary
(Dollars in millions)

Years ended December 31,	2017	2016	2015
Net earnings	$8,197	$4,895	$5,176
Non-cash items	2,652	2,559	2,392
Changes in working capital	2,495	3,045	1,795
Net cash provided by operating activities	13,344	10,499	9,363
Net cash used by investing activities	(2,062)	(3,380)	(1,846)
Net cash used by financing activities	(11,350)	(9,587)	(7,920)
Effect of exchange rate changes on cash and cash equivalents	80	(33)	(28)
Net decrease in cash and cash equivalents	12	(2,501)	(431)
Cash and cash equivalents at beginning of year	8,801	11,302	11,733
Cash and cash equivalents at end of period	$8,813	$8,801	$11,302

Operating Activities Net cash provided by operating activities was $13.3 billion during 2017, compared with $10.5 billion during 2016 and $9.4 billion in 2015. The increase of $2.8 billion in 2017 was primarily driven by higher advances more than offsetting inventory increases. The increase of $1.1 billion in 2016 was primarily due to lower expenditures on commercial airplane program inventory, primarily 787. Advances and progress billings increased by $4.6 billion in 2017, decreased by $1.9 billion in 2016 and increased by $0.4 billion in 2015. 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 2016 and 2015.

Investing Activities Cash used by investing activities during 2017, 2016 and 2015 was $2.1 billion, $3.4 billion and $1.8 billion. Capital expenditures totaled $1.7 billion in 2017, down from $2.6 billion in 2016 and $2.5 billion in 2015. We expect capital expenditures in 2018 to be higher than 2017. Net proceeds from investments was insignificant in 2017. Net contributions to investments were $0.5 billion in 2016 compared with net proceeds from investments of $0.6 billion in 2015.

Financing Activities 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. During 2017, our net borrowings were $1.1 billion compared with minimal net repayments in 2016. Cash used by financing activities was $9.6 billion during 2016, an increase of $1.7 billion compared with 2015, primarily due to lower net borrowings and higher dividend payments and share repurchases.

At December 31, 2017 and 2016 the recorded balance of debt was $11.1 billion and $10.0 billion of which $1.3 billion and $0.4 billion was classified as short-term. At December 31, 2017 and 2016 this included $2.5 billion and $2.9 billion of debt attributable to BCC, of which $0.9 billion and $0.1 billion were classified as short-term.

During 2017 and 2016 we repurchased 46.1 million and 55.1 million shares totaling $9.2 billion and $7.0 billion through our open market share repurchase program. In 2017 and 2016, we had 0.7 million shares transferred to us from employees for tax withholdings. At December 31, 2017, the amount available under the share repurchase plan, announced on December 11, 2017, totaled $18 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, 2017, commercial paper borrowings totaling $600 million were supported by unused commitments under the revolving credit agreement. We had no commercial paper borrowings in 2016. Currently, we have $5.0 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 $10.2 billion and $14.8 billion at December 31, 2017 and 2016. 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, if any, under our commercial paper program, in the debt markets or our credit facilities.

At December 31, 2017 and 2016, our pension plans were $16.4 billion and $20.1 billion underfunded as measured under GAAP. On an Employee Retirement Income Security Act (ERISA) basis our plans are more than 100% funded at December 31, 2017 with minimal required contributions in 2018. During 2017, we contributed shares of our common stock with an aggregate value of $3.5 billion and $0.5 billion in cash. We do not expect to make contributions to our pension plans in 2018. We may be required to make higher contributions to our pension plans in future years.

At December 31, 2017, 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.

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Contractual Obligations

The following table summarizes our known obligations to make future payments pursuant to certain contracts as of December 31, 2017, 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)	$11,130	$1,285	$2,362	$1,266	$6,217
Interest on debt	5,635	478	831	672	3,654
Pension and other postretirement cash requirements	6,190	609	1,245	1,246	3,090
Capital lease obligations	147	55	61	16	15
Operating lease obligations	1,367	220	365	212	570
Purchase obligations not recorded on the Consolidated Statements of Financial Position	115,064	48,375	31,369	23,223	12,097
Purchase obligations recorded on the Consolidated Statements of Financial Position	18,630	18,289	325	2	14
Total contractual obligations [1]	$158,163	$69,311	$36,558	$26,637	$25,657

(1) Excludes income tax matters. As of December 31, 2017, our net liability for income taxes payable, including uncertain tax positions of $1,736 million, was $1,634 million. For further discussion of income taxes, see Note 4 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.

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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 2017, we incurred no such penalties. As of December 31, 2017, we have outstanding industrial participation agreements totaling $17.9 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.

Commercial Commitments

The following table summarizes our commercial commitments outstanding as of December 31, 2017.

(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	$3,708	$1,659	$782	$559	$708
Commercial aircraft financing commitments	10,221	2,047	4,372	2,256	1,546
Total commercial commitments	$13,929	$3,706	$5,154	$2,815	$2,254

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 11 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 20 to our Consolidated Financial Statements.

Environmental Remediation We are involved with various environmental remediation activities and have recorded a liability of $524 million at December 31, 2017. For additional information, see Note 11 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 12 to our Consolidated Financial Statements.

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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 impact of certain pension and other postretirement benefit expenses that are not allocated to business segments. 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 unallocated pension costs recognized in earnings during 2017 was a benefit of $1,120 million compared with a benefit of $217 million in 2016 and an expense of $421 million in 2015. The higher 2017 benefit reflects the amortization of pension benefits capitalized as inventory in prior years. The 2016 benefit reflects the difference between the higher segment allocation compared to the U.S. GAAP net periodic pension costs recognized in earnings in the current period, as well as lower settlements and curtailments. For further discussion of pension and other postretirement costs see the Management’s Discussion and Analysis on pages 20 and 21 of this Form 10-K and see Note 21 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,	2017	2016	2015
Revenues	$93,392	$94,571	$96,114
Earnings from operations, as reported	$10,278	$5,834	$7,443
Operating margins	11.0 %	6.2 %	7.7 %
Unallocated pension (income)/expense	($1,120)	($217)	$421
Unallocated other postretirement benefit income	($188)	($153)	($123)
Unallocated pension and other postretirement benefit (income)/expense	($1,308)	($370)	$298
Core operating earnings (non-GAAP)	$8,970	$5,464	$7,741
Core operating margins (non-GAAP)	9.6 %	5.8 %	8.1 %
Diluted earnings per share, as reported	$13.43	$7.61	$7.44
Unallocated pension (income)/expense	($1.83)	($0.33)	$0.61
Unallocated other postretirement benefit income	($0.31)	($0.24)	($0.18)
Provision for deferred income taxes on adjustments (1)	$0.75	$0.20	($0.15)
Core earnings per share (non-GAAP)	$12.04	$7.24	$7.72
Weighted average diluted shares (in millions)	610.7	643.8	696.1

(1) The income tax impact is calculated using the tax rate in effect for the non-GAAP adjustments.

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Critical Accounting Policies

Contract Accounting

Contract accounting is used to determine revenue, cost of sales, and profit predominantly by BDS and for defense contracts at BGS. Contract accounting involves a judgmental process of estimating the total sales and costs for each contract, which results in the development of estimated cost of sales percentages. For each contract, the amount reported as cost of sales is determined by applying the estimated cost of sales percentage to the amount of revenue recognized.

Due to the size, duration and nature of many of our contracts, the estimation of total sales and costs through completion is complicated and subject to many variables. Total contract 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 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 contract 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 contracts are reviewed and reassessed quarterly. Changes in these estimates could result in recognition of cumulative catch-up adjustments to the contract’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 year ended December 31, 2017 net favorable cumulative catch-up adjustments, including reach-forward losses, across all contracts increased Earnings from operations by $14 million. For the years ended December 31, 2016 and 2015, net unfavorable cumulative catch-up adjustments, including reach-forward losses, across all contracts decreased Earnings from operations by $912 million and $224 million.

Due to the significance of judgment in the estimation process described above, it is likely that materially different cost of sales amounts 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 may adversely or positively affect financial performance in future periods. If the combined gross margin for all contracts in BDS and defense contracts at BGS for all of 2017 had been estimated to be higher or lower by 1%, it would have increased or decreased pre-tax income for the year by approximately $280 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.

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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; 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 and 2015, we recorded reach-forward losses of $1,258 million and $885 million on the 747 program. We continue to evaluate the viability of the 747 program and it is reasonably possible that we could decide to end production of the 747.

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 operating margins. For the year ended December 31, 2017, a 1% increase or decrease in operating margins for our Commercial Airplane segment would have a $567 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.

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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, 2017 and determined that there is no impairment of goodwill. As a result of the change in our reportable segments, as described in Note 21, we reallocated goodwill to our new reporting units using a relative fair value approach. We evaluated goodwill for impairment at July 1, 2017 and determined that no impairment existed. As of December 31, 2017, 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, 2017 and 2016, 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. 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.

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, 2017.

(Dollars in millions)	Change in discount rate Increase 25 bps	Change in discount rate Decrease 25 bps
Pension plans		
Projected benefit obligation	($2,364)	$2,961
Net periodic pension cost	(84)	99

Pension expense 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 2017 net periodic pension expense by $148 million. We expect 2018 net periodic pension cost to decrease by approximately $44 million and the portion recognized in earnings before income taxes to decrease by approximately $512 million primarily due to lower amortization of actuarial losses.

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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, 2017, 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, 2017, 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 $289 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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The Boeing Company and Subsidiaries
Consolidated Statements of Operations
(Dollars in millions, except per share data)

Years ended December 31,	2017	2016	2015
Sales of products	$83,204	$84,399	$85,255
Sales of services	10,188	10,172	10,859
Total revenues	93,392	94,571	96,114
Cost of products	(68,365)	(72,713)	(73,446)
Cost of services	(7,631)	(8,018)	(8,578)
Boeing Capital interest expense	(70)	(59)	(64)
Total costs and expenses	(76,066)	(80,790)	(82,088)
	17,326	13,781	14,026
Income from operating investments, net	204	303	274
General and administrative expense	(4,094)	(3,616)	(3,525)
Research and development expense, net	(3,179)	(4,627)	(3,331)
Gain/(loss) on dispositions, net	21	(7)	(1)
Earnings from operations	10,278	5,834	7,443
Other income/(loss), net	129	40	(13)
Interest and debt expense	(360)	(306)	(275)
Earnings before income taxes	10,047	5,568	7,155
Income tax expense	(1,850)	(673)	(1,979)
Net earnings	$8,197	$4,895	$5,176
Basic earnings per share	$13.60	$7.70	$7.52
Diluted earnings per share	$13.43	$7.61	$7.44

See Notes to the Consolidated Financial Statements on pages 55 – 106.

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

Years ended December 31,	2017	2016	2015
Net earnings	$8,197	$4,895	$5,176
Other comprehensive income/(loss), net of tax:			
Currency translation adjustments	128	(104)	(92)
Unrealized gain/(loss) on certain investments, net of tax of ($1), $1 and ($5)	1	(2)	8
Unrealized gain/(loss) on derivative instruments:			
Unrealized gain/(loss) arising during period, net of tax of ($66), $4 and $77	119	(8)	(140)
Reclassification adjustment for loss included in net earnings, net of tax of ($28), ($43) and ($43)	52	78	79
Total unrealized gain/(loss) on derivative instruments, net of tax	171	70	(61)
Defined benefit pension plans & other postretirement benefits:			
Net actuarial loss arising during the period, net of tax of $248, $752 and $402	(495)	(1,365)	(732)
Amortization of actuarial losses included in net periodic pension cost, net of tax of ($272), ($288) and ($570)	542	524	1,038
Settlements and curtailments included in net income, net of tax of $0, ($7) and ($27)		14	51
Pension and postretirement (cost)/benefit related to our equity method investments, net of tax $5, ($7) and ($2)	(11)	12	3
Amortization of prior service (credits)/cost included in net periodic pension cost, net of tax of $59, $31 and ($22)	(117)	(57)	38
Prior service cost arising during the period, net of tax of ($14), ($18) and ($496)	28	33	902
Total defined benefit pension plans & other postretirement benefits, net of tax	(53)	(839)	1,300
Other comprehensive income/(loss), net of tax	247	(875)	1,155
Comprehensive loss related to noncontrolling interests	(2)	(1)	(3)
Comprehensive income, net of tax	$8,442	$4,019	$6,328

See Notes to the Consolidated Financial Statements on pages 55 – 106.

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

December 31,	2017	2016
Assets		
Cash and cash equivalents	$8,813	$8,801
Short-term and other investments	1,179	1,228
Accounts receivable, net	10,516	8,832
Current portion of customer financing, net	309	428
Inventories, net of advances and progress billings	44,344	43,199
Total current assets	65,161	62,488
Customer financing, net	2,740	3,773
Property, plant and equipment, net	12,672	12,807
Goodwill	5,559	5,324
Acquired intangible assets, net	2,573	2,540
Deferred income taxes	341	332
Investments	1,260	1,317
Other assets, net of accumulated amortization of $482 and $497	2,027	1,416
Total assets	$92,333	$89,997
Liabilities and equity		
Accounts payable	$12,202	$11,190
Accrued liabilities	15,292	14,691
Advances and billings in excess of related costs	27,440	23,869
Short-term debt and current portion of long-term debt	1,335	384
Total current liabilities	56,269	50,134
Deferred income taxes	1,839	1,338
Accrued retiree health care	5,545	5,916
Accrued pension plan liability, net	16,471	19,943
Other long-term liabilities	2,015	2,221
Long-term debt	9,782	9,568
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	6,804	4,762
Treasury stock, at cost	(43,454)	(36,097)
Retained earnings	45,320	40,714
Accumulated other comprehensive loss	(13,376)	(13,623)
Total shareholders’ equity	355	817
Noncontrolling interests	57	60
Total equity	412	877
Total liabilities and equity	$92,333	$89,997

See Notes to the Consolidated Financial Statements on pages 55 – 106.

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The Boeing Company and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in millions)

Years ended December 31,	2017	2016	2015
Cash flows – operating activities:			
Net earnings	$8,197	$4,895	$5,176
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Non-cash items –			
Share-based plans expense	202	190	189
Depreciation and amortization	2,069	1,910	1,833
Investment/asset impairment charges, net	113	90	167
Customer financing valuation cost/(benefit)	2	(7)	(5)
(Gain)/Loss on dispositions, net	(21)	7	1
Other charges and credits, net	287	369	364
Excess tax benefits from share-based payment arrangements			(157)
Changes in assets and liabilities –			
Accounts receivable	(1,821)	112	(1,069)
Inventories, net of advances and progress billings	(1,085)	3,755	(1,110)
Accounts payable	130	622	(238)
Accrued liabilities	573	726	2
Advances and billings in excess of related costs	3,570	(493)	1,192
Income taxes receivable, payable and deferred	857	(810)	477
Other long-term liabilities	94	(68)	46
Pension and other postretirement plans	(582)	153	2,470
Customer financing, net	1,017	(696)	167
Other	(258)	(256)	(142)
Net cash provided by operating activities	13,344	10,499	9,363
Cash flows – investing activities:			
Property, plant and equipment additions	(1,739)	(2,613)	(2,450)
Property, plant and equipment reductions	92	38	42
Acquisitions, net of cash acquired	(324)	(297)	(31)
Contributions to investments	(3,601)	(1,719)	(2,036)
Proceeds from investments	3,639	1,209	2,590
Purchase of distribution rights	(131)		
Other	2	2	39
Net cash used by investing activities	(2,062)	(3,380)	(1,846)
Cash flows – financing activities:			
New borrowings	2,077	1,325	1,746
Debt repayments	(953)	(1,359)	(885)
Repayments of distribution rights and other asset financing		(24)	
Stock options exercised	311	321	399
Excess tax benefits from share-based payment arrangements			157
Employee taxes on certain share-based payment arrangements	(132)	(93)	(96)
Common shares repurchased	(9,236)	(7,001)	(6,751)
Dividends paid	(3,417)	(2,756)	(2,490)
Net cash used by financing activities	(11,350)	(9,587)	(7,920)
Effect of exchange rate changes on cash and cash equivalents	80	(33)	(28)
Net decrease in cash and cash equivalents	12	(2,501)	(431)
Cash and cash equivalents at beginning of year	8,801	11,302	11,733

Cash and cash equivalents at end of year	$8,813	$8,801	$11,302

See Notes to the Consolidated Financial Statements on pages 55 – 106.

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The Boeing Company and Subsidiaries
Consolidated Statements of Equity

	Boeing shareholders						
(Dollars in millions, except per share data)	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total
Balance at January 1, 2015	$5,061	$4,625	($23,298)	$36,180	($13,903)	$125	$8,790
Net earnings				5,176		(3)	5,173
Other comprehensive income, net of tax of ($686)					1,155		1,155
Share-based compensation and related dividend equivalents		214		(25)			189
Excess tax pools		158					158
Treasury shares issued for stock options exercised, net		(29)	428				399
Treasury shares issued for other share-based plans, net		(134)	53				(81)
Common shares repurchased			(6,751)				(6,751)
Cash dividends declared ($3.82 per share)				(2,575)			(2,575)
Changes in noncontrolling interests						(60)	(60)
Balance at December 31, 2015	$5,061	$4,834	($29,568)	$38,756	($12,748)	$62	$6,397
Net earnings				4,895		(1)	4,894
Other comprehensive loss, 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)	$40,714	($13,623)	$60	$877
Net earnings				8,197		(2)	8,195
Other comprehensive income, 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)	$45,320	($13,376)	$57	$412

See Notes to the Consolidated Financial Statements on pages 55 – 106.

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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,	2017	2016	2015
Revenues:			
Commercial Airplanes	$56,729	$58,012	$59,399
Defense, Space & Security	21,057	22,563	23,708
Global Services	14,639	13,925	13,293
Boeing Capital	307	298	413
Unallocated items, eliminations and other	660	(227)	(699)
Total revenues	$93,392	$94,571	$96,114
Earnings from operations:			
Commercial Airplanes	$5,432	$1,995	$4,284
Defense, Space & Security	2,223	1,966	2,312
Global Services	2,256	2,177	1,835
Boeing Capital	114	59	50
Segment operating profit	10,025	6,197	8,481
Unallocated items, eliminations and other	253	(363)	(1,038)
Earnings from operations	10,278	5,834	7,443
Other income/(loss), net	129	40	(13)
Interest and debt expense	(360)	(306)	(275)
Earnings before income taxes	10,047	5,568	7,155
Income tax expense	(1,850)	(673)	(1,979)
Net earnings	$8,197	$4,895	$5,176

This information is an integral part of the Notes to the Consolidated Financial Statements. See Note 21 for further segment results.

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The Boeing Company and Subsidiaries
Notes to the Consolidated Financial Statements
Years ended December 31, 2017, 2016 and 2015
(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 21, 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

Management makes assumptions and estimates to prepare financial statements in conformity with accounting principles generally accepted in the United States of America. Those assumptions and estimates directly affect the amounts reported in the Consolidated Financial Statements. Significant estimates for which changes in the near term are considered reasonably possible and that may have a material impact on the financial statements are disclosed in these Notes to the Consolidated Financial Statements.

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.

Revenue and Related Cost Recognition

Contract Accounting Contract accounting is used for development and production activities predominantly by BDS and for defense contracts at BGS. The majority of these activities are performed under contracts with the U.S. government and other customers that extend over several years. Contract accounting involves a judgmental process of estimating total sales and costs for each contract resulting in the development of estimated cost of sales percentages. For each contract, the amount reported as cost of sales is determined by applying the estimated cost of sales percentage to the amount of revenue recognized. When the current estimates of total sales and costs for a contract indicate a loss, a provision for the entire loss on the contract is recognized.

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 contract's percent complete. Net cumulative catch-up adjustments to prior years' earnings, including reach-forward losses, across all contracts were as follows:

	2017	2016	2015
Increase/(decrease) to Earnings from Operations	$14	($912)	($224)
Increase/(decrease) to Diluted EPS	$0.02	($1.25)	($0.23)

Significant adjustments during the three years ended December 31, 2017 included reach-forward losses of $471, $1,128 and $835 on the USAF KC-46A Tanker contract recorded during 2017, 2016 and 2015.

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We combine contracts for accounting purposes when they are negotiated as a package with an overall profit margin objective. These essentially represent an agreement to do a single project for a single customer, involve interrelated construction activities with substantial common costs, and are performed concurrently or sequentially. When a group of contracts is combined, revenue and profit are earned uniformly over the performance of the combined contracts. Similarly, we may segment a single contract or group of contracts when a clear economic decision has been made during contract negotiations that would produce different rates of profitability for each element or phase of the contract.

Sales related to fixed-price contracts are recognized as deliveries are made, except for certain fixed-price contracts that require substantial performance over an extended period before deliveries begin, for which sales are recorded based on the attainment of performance milestones. Sales related to contracts in which we are reimbursed for costs incurred plus an agreed upon profit are recorded as costs are incurred. The Federal Acquisition Regulations provide guidance on the types of cost that will be reimbursed in establishing contract price. Contracts may contain provisions to earn incentive and award fees if specified targets are achieved. Incentive and award fees that can be reasonably estimated and are probable are recorded over the performance period of the contract. Incentive and award fees that cannot be reasonably estimated are recorded when awarded.

Program Accounting Our Commercial Airplanes segment uses program accounting to account for cost of sales related to its programs. Program accounting is applicable to products manufactured for delivery under production-type contracts where profitability is realized over multiple contracts and years. Under program accounting, inventoriable production costs, program tooling and other non-recurring costs, and warranty costs are accumulated and charged to 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. 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. 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.

We recognize sales for commercial airplane deliveries as each unit is completed and accepted by the customer. Sales recognized represent the price negotiated with the customer, adjusted by an escalation formula as specified in the customer agreement. 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. Changes in estimated revenues, cost of sales and the related effects on program margins are recognized prospectively except in cases where the program is determined to have a reach-forward loss in which case the loss is recognized in the current period. Reductions to a reach-forward loss are spread over all undelivered units in the accounting quantity, whereas increases to the estimated loss are recorded immediately. See Note 11.

Concession Sharing Arrangements We account for sales concessions to our customers in consideration of their purchase of products and services as a reduction to revenue when the related products and services are delivered. 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.

Spare Parts Revenue We recognize sales of spare parts upon delivery and the amount reported as cost of sales is recorded at average cost.

Service Revenue Service revenue is recognized when the service is performed with the exception of U.S. government service agreements, which are accounted for using contract accounting. Service activities

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primarily include: support agreements associated with military aircraft and helicopter contracts, space travel on Commercial Crew, ongoing maintenance of International Space Station, military and commercial aircraft training contracts, fleet care, and technical and flight operation services for commercial aircraft. Service revenue and associated cost of sales from pay-in-advance subscription fees are deferred and recognized as services are rendered.
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. 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 $141, $147 and $136 during 2017, 2016 and 2015, respectively. Reinsurance costs related to premiums and claims paid to the reinsurance pool were $144, $139 and $132 during 2017, 2016 and 2015, 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

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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 $288, $311 and $286 in 2017, 2016 and 2015, 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.

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 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.

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 $116 and $77 at December 31, 2017 and 2016.

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.

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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.

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.

We net advances and progress billings on long-term contracts against inventory in the Consolidated Statements of Financial Position. Advances and progress billings in excess of related inventory are reported in Advances and billings in excess of related costs.

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, net of advances and progress billings, 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. 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.

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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 3 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.

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Investments
Time deposits are held-to-maturity investments that are carried at cost.
Available-for-sale securities include commercial paper, U.S. government agency securities, and corporate debt securities. Available-for-sale 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 securities are recognized based on the specific identification method. Available-for-sale 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%.
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 certain cost method 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/(expense), 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

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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.
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 three to four-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

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period in which the related product sales occur. 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 a residual value guarantee where we received a cash premium, the liability is equal to the cash premium received at the guarantee's inception. 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) No. 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 requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. We plan to adopt the new lease standard in 2019 and do not expect it to have a material effect on our financial position, results of operations or cash flows.
We are adopting ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) in the first quarter of 2018 using the retrospective transition method which will require 2016 and 2017 financial statements to be restated. The new standard 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. The standard also requires expanded disclosures regarding revenue and contracts with customers.

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Most of our defense contracts at BDS and BGS that have historically recognized revenue as deliveries are made or based on the attainment of performance milestones will recognize revenue under the new standard over time as costs are incurred. Certain military derivative aircraft contracts included in our BCA segment will also recognize revenue as costs are incurred. The new standard will not change the total amount of revenue recognized on these contracts, only accelerate the timing of when the revenue is recognized. In addition, the timing of cost of sales recognition for these contracts will be accelerated, resulting in a decrease in Inventories from long-term contracts in progress.

The new standard will not affect revenue recognition or the use of program accounting for commercial airplane contracts. We will continue to recognize revenue for these contracts at the point in time when the customer accepts delivery of the airplane.

Because revenue will be recognized under the new standard as costs are incurred for most of our defense and military derivative airplane contracts, approximately $10,000 of revenues and $1,300 of associated operating earnings will be accelerated into years ending prior to January 1, 2016. The restatement will result in a cumulative adjustment to increase retained earnings by $900 effective January 1, 2016. Restated income statements for 2016 and 2017 are shown below.

We are also adopting ASU No. 2017-07,Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost in the first quarter of 2018. The standard requires non-service cost components of net periodic benefit cost to be presented in non-operating earnings using a retrospective transition method which will require us to restate 2016 and 2017 in the first quarter of 2018. In addition, only service costs may be allocated to production costs and capitalized in inventory on a prospective basis effective January 1, 2018. Adoption in the first quarter of 2018 is expected to result in a reclassification of non-service cost components of net periodic benefit cost of $6 in 2017 and $478 in 2016 from Earnings from Operations to Other income/(loss), net. We applied a practical expedient as the estimation basis for this reclassification. Adoption of the new pension standard will not affect previously reported financial position, earnings per share, or cash flows.

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The impact to our 2017 and 2016 operating results as a result of adopting ASC Topic 606 and ASU No. 2017-07 is presented in the tables below:

Years ended December 31,	Reported 2017	Restated 2017	Reported 2016	Restated 2016
Revenues:				
Commercial Airplanes	$56,729	$58,014	$58,012	$59,378
Defense, Space & Security	21,057	20,561	22,563	20,180
Global Services	14,639	14,581	13,925	13,819
Boeing Capital	307	307	298	298
Unallocated items, eliminations and other	660	542	(227)	(179)
Total revenues	$93,392	$94,005	$94,571	$93,496
Earnings from operations:				
Commercial Airplanes	$5,432	$5,452	$1,995	$1,981
Defense, Space & Security	2,223	2,193	1,966	1,678
Global Services	2,256	2,246	2,177	2,159
Boeing Capital	114	114	59	59
Segment operating profit	10,025	10,005	6,197	5,877
Unallocated items, eliminations and other	253	(1,099)	(363)	(707)
FAS/CAS service cost adjustment [1]		1,438		1,357
Earnings from operations	10,278	10,344	5,834	6,527
Other income/(loss), net [1]	129	123	40	(438)
Interest and debt expense	(360)	(360)	(306)	(306)
Earnings before income taxes	10,047	10,107	5,568	5,783
Income tax expense	(1,850)	(1,649)	(673)	(749)
Net earnings	$8,197	$8,458	$4,895	$5,034
Diluted earnings per share	$13.43	$13.85	$7.61	$7.83

(1) The FAS/CAS service cost adjustment represents the difference between the pension and postretirement service costs calculated under Generally Accepted Accounting Principles (GAAP) and costs allocated to the business segments which are based on U.S. Government Cost Accounting Standards for our defense businesses. Restated Other income/(loss), net includes the non-service cost components of net periodic benefit cost.

In addition to the income statement changes described above, adoption of ASC Topic 606 is expected to increase total assets and total liabilities at December 31, 2017 and 2016 by approximately $20,000 and $19,000 primarily due to classifying certain advances from customers as liabilities under the new standard, whereas these advances were netted against inventory under existing GAAP. Adoption of ASU No. 2017-07 has no impact on total assets and total liabilities. The new standards have no impact on cash flows reported in 2017 and 2016. The impact of the new revenue standard on our 2017 and 2016 financial results may not be representative of the impact on our financial position and operating results in subsequent years. ASC Topic 606 requires additional detailed disclosures regarding the Company’s contracts with customers, including disclosure of remaining unsatisfied performance obligations, in the first quarter of 2018 which we are continuing to assess. We have identified and implemented changes to the Company’s business processes, systems and controls to support adoption of the new standard.

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Note 2 – Goodwill and Acquired Intangibles

Changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2017 and 2016 were as follows:

	Commercial Airplanes	Defense, Space & Security	Global Services	Total
Balance at January 1, 2016	$992	$2,648	$1,486	$5,126
Acquisitions[1]		206		206
Goodwill adjustments			(8)	(8)
Balance at December 31, 2016	$992	$2,854	$1,478	$5,324
Acquisitions[1]		220		220
Goodwill adjustments			15	15
Balance at December 31, 2017[1]	$992	$3,074	$1,493	$5,559

[1] The increase in goodwill is primarily the result of acquisitions in the fourth quarter of 2016 and 2017.

As of December 31, 2017 and 2016, we had indefinite-lived intangible assets with carrying amounts of $490 relating to trade names.

The gross carrying amounts and accumulated amortization of our acquired finite-lived intangible assets were as follows at December 31:

	2017		2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Distribution rights	$2,445	$943	$2,281	$797
Product know-how	522	298	503	271
Customer base	650	479	595	436
Developed technology	556	406	523	376
Other	213	177	194	166
Total	$4,386	$2,303	$4,096	$2,046

Amortization expense for acquired finite-lived intangible assets for the years ended December 31, 2017 and 2016 was $240 and $220. Estimated amortization expense for the five succeeding years is as follows:

	2018	2019	2020	2021	2022
Estimated amortization expense	$236	$213	$183	$174	$165

During 2017 and 2016 we acquired $298 and $113 of finite-lived intangible assets, of which $55 and $31 related to non-cash investing and financing transactions.

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Note 3 – Earnings Per Share

Basic and diluted earnings per share are computed using the two-class method, which is an earnings allocation method that determines earnings per share for common shares and participating securities. The undistributed earnings are allocated between common shares and participating securities as if all earnings had been distributed during the period. Participating securities and common shares have equal rights to undistributed earnings.

Basic earnings per share is calculated by taking net earnings, less earnings available to participating securities, divided by the basic weighted average common shares outstanding.

Diluted earnings per share is calculated by taking net earnings, less earnings available to participating securities, divided by the diluted weighted average common shares outstanding.

The elements used in the computation of basic and diluted earnings per share were as follows:

(In millions - except per share amounts)

Years ended December 31,	2017	2016	2015
Net earnings	$8,197	$4,895	$5,176
Less: earnings available to participating securities	6	3	4
Net earnings available to common shareholders	$8,191	$4,892	$5,172
Basic			
Basic weighted average shares outstanding	603.2	636.5	688.0
Less: participating securities	0.7	1	1.1
Basic weighted average common shares outstanding	602.5	635.5	686.9
Diluted			
Basic weighted average shares outstanding	603.2	636.5	688.0
Dilutive potential common shares(1)	7.5	7.3	8.1
Diluted weighted average shares outstanding	610.7	643.8	696.1
Less: participating securities	0.7	1.0	1.1
Diluted weighted average common shares outstanding	610.0	642.8	695.0
Net earnings per share:			
Basic	$13.60	$7.70	$7.52
Diluted	13.43	7.61	7.44

(1) Diluted earnings per share includes any dilutive impact of stock options, restricted stock units, performance-based restricted stock units and performance awards.

The following table includes the number of shares that may be dilutive potential common shares in the future. These shares were not included in the computation of diluted earnings per share because the effect was either antidilutive or the performance condition was not met.

(Shares in millions)

Years ended December 31,	2017	2016	2015
Performance awards	4.1	6.5	5.6
Performance-based restricted stock units	0.5	2.5	2.3

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Note 4 – Income Taxes

The components of earnings before income taxes were:

Years ended December 31,	2017	2016	2015
U.S.	$9,615	$5,175	$6,828
Non-U.S.	432	393	327
Total	$10,047	$5,568	$7,155

Income tax expense/(benefit) consisted of the following:

Years ended December 31,	2017	2016	2015
Current tax expense			
U.S. federal	$1,276	$1,193	$2,102
Non-U.S.	149	133	122
U.S. state	23	15	21
Total current	1,448	1,341	2,245
Deferred tax expense			
U.S. federal	405	(618)	(297)
Non-U.S.	(1)	(4)	4
U.S. state	(2)	(46)	27
Total deferred	402	(668)	(266)
Total income tax expense	$1,850	$673	$1,979

Net income tax payments were $896, $1,460 and $1,490 in 2017, 2016 and 2015, respectively.

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The following is a reconciliation of the U.S. federal statutory tax rate of 35% to our effective income tax rates:

Years ended December 31,	2017	2016	2015
U.S. federal statutory tax	35.0 %	35.0 %	35.0 %
Impact of Tax Cuts and Jobs Act[1]	(10.5)		
Tax basis adjustment[2]		(7.9)	
Federal audit settlements[3]		(3.2)	
Excess tax benefits[4]	(2.1)	(1.9)	
Research and development credits	(1.6)	(5.2)	(3.4)
U.S. manufacturing activity tax benefit	(1.3)	(3.8)	(2.9)
Tax on non-US activities	(0.9)	(0.5)	(0.6)
Other provision adjustments	(0.2)	(0.4)	(0.4)
Effective income tax rate	18.4 %	12.1 %	27.7 %

(1) On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was enacted. The TCJA revises the U.S. corporate income tax by, among other things, lowering the rate from 35% to 21% effective January 1, 2018, implementing a territorial tax system and imposing a one-time tax on deemed repatriated earnings of non-U.S. subsidiaries. In the fourth quarter of 2017, we recorded provisional tax benefits of $1,210 related to the remeasurement of our net U.S. deferred tax liabilities to reflect the reduction in the corporate tax rate. We also recorded a provisional tax expense of $159 related to tax on non-U.S. activities resulting from the TCJA.

(2) In the third quarter of 2016, we recorded incremental tax benefits of $440 related to the application of a 2012 Federal Court of Claims decision which held that the tax basis in certain assets could be increased (tax basis adjustment).

(3) In the third quarter of 2016, a tax benefit of $177 was recorded as a result of the settlement of the 2011-2012 federal tax audit.

(4) In 2017 and 2016, we recorded excess tax benefits related to employee share-based payments of $207 and $105.

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Significant components of our deferred tax (liabilities)/assets at December 31 were as follows:

	2017	2016
Inventory and long-term contract methods of income recognition	(6,290)	(9,954)
Pension benefits	3,690	7,385
Retiree health care benefits	1,319	2,268
Fixed assets, intangibles and goodwill (net of valuation allowance of $16 and $16)	(1,259)	(2,007)
Other employee benefits	847	1,225
Customer and commercial financing	(369)	(730)
Accrued expenses and reserves	347	587
Net operating loss, credit and capital loss carryovers (net of valuation allowance of $53 and $79)[1]	299	277
Other	(82)	(57)
Net deferred tax (liabilities)/assets[2]	($1,498)	($1,006)

(1) Of the deferred tax asset for net operating loss and credit carryovers, $278 expires on or before December 31, 2036 and $21 may be carried over indefinitely.

(2) Included in the net deferred tax (liabilities)/assets as of December 31, 2017 and 2016 are deferred tax assets in the amounts of $4,636 and $7,701 related to Accumulated other comprehensive loss.

Net deferred tax (liabilities)/assets at December 31 were as follows:

	2017	2016
Deferred tax assets	$8,459	$13,591
Deferred tax liabilities	(9,888)	(14,502)
Valuation allowance	(69)	(95)
Net deferred tax (liabilities)/assets	($1,498)	($1,006)

The deferred tax assets are reduced by a valuation allowance if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The TCJA one-time repatriation tax liability effectively taxed the undistributed earnings previously deferred from U.S. income taxes. We have not provided for foreign withholding tax on the undistributed earnings from our non-U.S. subsidiaries because such earnings are considered to be indefinitely reinvested. If such earnings were to be distributed, any foreign withholding tax would not be significant.

In accordance with U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 118 the amounts recorded in the fourth quarter of 2017 related to the TCJA represent reasonable estimates based on our analysis to date and are considered to be provisional and subject to revision during 2018. Provisional amounts were recorded for the repatriation tax, the remeasurement of our 2017 U.S. net deferred tax liabilities and ancillary state tax effects. These amounts are considered to be provisional as we continue to assess available tax methods and elections and refine our computations. In addition, further regulatory guidance related to the TCJA is expected to be issued in 2018 which may result in changes to our current estimates. Any revisions to the estimated impacts of TCJA will be recorded quarterly until the computations are complete which is expected no later than the fourth quarter of 2018.

As of December 31, 2017 and 2016, the amounts accrued for the payment of income tax-related interest and penalties included in the Consolidated Statements of Financial Position were not significant. The amounts of interest benefit included in the Consolidated Statements of Operations were not significant for the years ended December 31, 2017, 2016 and 2015.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2017	2016	2015
Unrecognized tax benefits – January 1	$1,557	$1,617	$1,312
Gross increases – tax positions in prior periods	3	17	38
Gross decreases – tax positions in prior periods	(44)	(348)	(25)
Gross increases – current-period tax positions	220	344	292
Settlements		(73)	
Unrecognized tax benefits – December 31	$1,736	$1,557	$1,617

As of December 31, 2017, 2016 and 2015, the total amount of unrecognized tax benefits was $1,736, $1,557 and $1,617, respectively, of which $1,568, $1,402 and $1,479 would affect the effective tax rate, if recognized. As of December 31, 2017, these amounts are primarily associated with U.S. federal tax issues such as the amount of research tax credits claimed, the U.S. manufacturing activity tax benefit and tax basis adjustments. Also included in these amounts are accruals for domestic state tax issues such as the allocation of income among various state tax jurisdictions and the amount of state tax credits claimed.

Federal income tax audits have been settled for all years prior to 2013. The Internal Revenue Service (IRS) began the 2013-2014 federal tax audit in the fourth quarter of 2016. We are also subject to examination in major state and non-U.S. jurisdictions for the 2001-2016 tax years. We believe appropriate provisions for all outstanding tax issues have been made for all jurisdictions and all open years.

Audit outcomes and the timing of audit settlements are subject to significant uncertainty. It is reasonably possible that within the next 12 months unrecognized tax benefits related to federal and state matters under audit may decrease by up to $540 and $430, respectively, based on current estimates.

Note 5 – Accounts Receivable, net

Accounts receivable at December 31 consisted of the following:

	2017	2016
U.S. government contracts	$5,989	$4,639
Commercial Airplanes	1,542	1,375
Global Services[(1)]	1,472	1,257
Defense, Space & Security[(1)]	760	533
Reinsurance receivables	467	526
Other	348	567
Less valuation allowance	(62)	(65)
Total	$10,516	$8,832

(1) Excludes U.S. government contracts

The following table summarizes our accounts receivable under long-term contracts that were unbillable or related to outstanding claims as of December 31:

	Unbillable		Claims	
	2017	2016	2017	2016
Current	$2,876	$1,919	$4	$38
Expected to be collected after one year	1,564	2,011	$55	91
Total	$4,440	$3,930	$59	$129

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Under contract accounting unbillable receivables on long-term contracts arise when the sales or revenues based on performance attainment, though appropriately recognized, cannot be billed yet under terms of the contract as of the balance sheet date. Any adjustment for the credit quality of unbillable receivables, if required, would be recorded as a direct reduction of revenue. Factors considered in assessing the collectability of unbillable receivables include, but are not limited to, a customer's extended delinquency, requests for restructuring and filings for bankruptcy. Unbillable receivables related to commercial customers expected to be collected after one year were $172 and $172 at December 31, 2017 and 2016. Accounts receivable related to claims are items that we believe are earned, but are subject to uncertainty concerning their determination or ultimate realization.

Accounts receivable, other than those described above, expected to be collected after one year are not material.

Note 6 – Inventories

Inventories at December 31 consisted of the following:

	2017	2016
Long-term contracts in progress	$13,889	$12,801
Commercial aircraft programs	52,861	52,048
Commercial spare parts, used aircraft, general stock materials and other	5,688	5,446
Inventory before advances and progress billings	72,438	70,295
Less advances and progress billings	(28,094)	(27,096)
Total	$44,344	$43,199

Long-Term Contracts in Progress

Long-term contracts in progress includes Delta launch program inventory that is being sold at cost to United Launch Alliance (ULA) under an inventory supply agreement that terminates on March 31, 2021. The inventory balance was $120 (net of advances of $164 and $220) at December 31, 2017 and 2016. See indemnifications to ULA in Note 12.

Included in inventories at December 31, 2017 and 2016 are capitalized precontract costs of $933 and $729 primarily related to KC-46A Tanker, C-17 and F/A-18. See Note 11.

Commercial Aircraft Programs

At December 31, 2017 and 2016, commercial aircraft programs inventory included the following amounts related to the 787 program: $30,695 and $32,501 of work in process (including deferred production costs of $25,358 and $27,308), $3,189 and $2,398 of supplier advances, and $3,173 and $3,625 of unamortized tooling and other non-recurring costs. At December 31, 2017, $22,220 of 787 deferred production costs, unamortized tooling and other non-recurring costs are expected to be recovered from units included in the program accounting quantity that have firm orders and $6,311 is expected to be recovered from units included in the program accounting quantity that represent expected future orders.

At December 31, 2017 and 2016, commercial aircraft programs inventory included $151 and $284 of unamortized tooling costs related to the 747 program. At December 31, 2017, $146 of 747 unamortized tooling costs are expected to be recovered from units included in the program accounting quantity that have firm orders or commitments. The program accounting quantity includes one already completed aircraft which is being remarketed.

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Commercial aircraft programs inventory included amounts credited in cash or other consideration (early issue sales consideration) to airline customers totaling $2,976 and $3,117 at December 31, 2017 and 2016.

Note 7 – Customer Financing

Customer financing primarily relates to the BCC segment and consisted of the following at December 31:

	2017	2016
Financing receivables:		
Investment in sales-type/finance leases	$1,364	$1,482
Notes	677	807
Total financing receivables	2,041	2,289
Operating lease equipment, at cost, less accumulated depreciation of $320 and $359	1,020	1,922
Gross customer financing	3,061	4,211
Less allowance for losses on receivables	(12)	(10)
Total	$3,049	$4,201

The components of investment in sales-type/finance leases at December 31 were as follows:

	2017	2016
Minimum lease payments receivable	$1,159	$1,321
Estimated residual value of leased assets	495	505
Unearned income	(290)	(344)
Total	$1,364	$1,482

Operating lease equipment primarily includes large commercial jet aircraft.

Financing receivable balances evaluated for impairment at December 31 were as follows:

	2017	2016
Individually evaluated for impairment	$77	$55
Collectively evaluated for impairment	1,964	2,234
Total financing receivables	$2,041	$2,289

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. At December 31, 2017 and 2016, we individually evaluated for impairment customer financing receivables of $77 and $55, of which $66 and $44 were determined to be impaired. We recorded no allowance for losses on these impaired receivables as the collateral values exceeded the carrying values of the receivables.

Income recognition is generally suspended for financing receivables at the date full recovery of income and principal becomes not probable. Income is recognized when financing receivables become contractually current and performance is demonstrated by the customer. The average recorded investment in impaired financing receivables for the year ended December 31, 2017 was $46 and the related interest income was insignificant.

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The change in the allowance for losses on financing receivables for the years ended December 31, 2017, 2016 and 2015, consisted of the following:

	2017	2016	2015
Beginning balance - January 1	($10)	($16)	($21)
Customer financing valuation (cost)/benefit	(2)	6	5
Ending balance - December 31	($12)	($10)	($16)
Collectively evaluated for impairment	($12)	($10)	($16)

The adequacy of the allowance for losses is assessed quarterly. Three primary factors influencing the level of our allowance for losses on customer financing receivables are customer credit ratings, default rates and collateral values. We assign internal credit ratings for all customers and determine the creditworthiness of each customer based upon publicly available information and information obtained directly from our customers. Our rating categories are comparable to those used by the major credit rating agencies.

Our financing receivable balances at December 31 by internal credit rating category are shown below:

Rating categories	2017	2016
BBB	$1,170	$1,324
BB	627	538
B	177	383
CCC	67	44
Total carrying value of financing receivables	$2,041	$2,289

At December 31, 2017, our allowance related to receivables with ratings of B, BB and BBB. We applied default rates that averaged 22.6%, 4.7% and 0.9% to the exposure associated with those receivables.

Customer Financing Exposure

Customer financing is collateralized by security in the related asset. The value of the collateral is closely tied to commercial airline performance and overall market conditions and may be subject to reduced valuation with market decline. Declines in collateral values could result in asset impairments, reduced finance lease income, and an increase in the allowance for losses. Our customer financing collateral is concentrated in 747-8 and out-of-production aircraft. Generally, out-of-production aircraft have experienced greater collateral value declines than in-production aircraft.

The majority of customer financing carrying values are concentrated in the following aircraft models at December 31:

	2017	2016
717 Aircraft ($269 and $301 accounted for as operating leases)	$1,081	$1,282
747-8 Aircraft ($467 and $1,086 accounted for as operating leases)	467	1,111
MD-80 Aircraft (Accounted for as sales-type finance leases)	231	259
757 Aircraft ($27 and $43 accounted for as operating leases)	217	246
747-400 Aircraft ($88 and $149 Accounted for as operating leases)	170	149
737 Aircraft ($127 and $103 Accounted for as operating leases)	161	103
767 Aircraft ($25 and $85 accounted for as operating leases)	98	170
777 Aircraft (Accounted for as notes)	14	165

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Charges related to customer financing asset impairment for the years ended December 31 were as follows:

	2017	2016	2015
Boeing Capital	$13	$45	$162
Other Boeing	30	21	
Total	$43	$66	$162

Scheduled receipts on customer financing are as follows:

Year	2018	2019	2020	2021	2022	Beyond 2022
Principal payments on notes receivable	$149	$167	$132	$175	$37	$17
Sales-type/finance lease payments receivable	236	223	185	120	107	288
Operating lease equipment payments receivable	417	86	69	53	40	62

Note 8 – Property, Plant and Equipment

Property, plant and equipment at December 31 consisted of the following:

	2017	2016
Land	$530	$535
Buildings and land improvements	14,125	13,796
Machinery and equipment	14,577	13,569
Construction in progress	1,081	1,790
Gross property, plant and equipment	30,313	29,690
Less accumulated depreciation	(17,641)	(16,883)
Total	$12,672	$12,807

Depreciation expense was $1,548, $1,418 and $1,357 for the years ended December 31, 2017, 2016 and 2015, respectively. Interest capitalized during the years ended December 31, 2017, 2016 and 2015 totaled $110, $170 and $158, respectively.

Rental expense for leased properties was $283, $287 and $267, for the years ended December 31, 2017, 2016 and 2015, respectively. At December 31, 2017, minimum rental payments under capital leases aggregated $147. Minimum rental payments under operating leases with initial or remaining terms of one year or more aggregated $1,355, net of sublease payments of $13 at December 31, 2017. Payments due under operating and capital leases net of sublease amounts and non-cancellable future rentals during the next five years are as follows:

	2018	2019	2020	2021	2022
Minimum operating lease payments, net of sublease amounts	$216	$201	$157	$115	$96
Minimum capital lease payments	55	37	24	12	4

Accounts payable related to purchases of property, plant and equipment were $196 and $292 for the years ended December 31, 2017 and 2016.

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Note 9 – Investments

Our investments, which are recorded in Short-term and other investments or Investments, consisted of the following at December 31:

	2017	2016
Equity method investments [(1)]	$1,214	$1,242
Time deposits	613	665
Available-for-sale investments	508	537
Other investments	30	33
Restricted cash & cash equivalents [(2)]	74	68
Total	$2,439	$2,545

(1) Dividends received were $247 and $314 during 2017 and 2016. Retained earnings at December 31, 2017 include undistributed earnings from our equity method investments of $307.

(2) Reflects amounts restricted in support of our workers' compensation programs, employee benefit programs, and insurance premiums.

Equity Method Investments

Our equity method investments consisted of the following as of December 31:

	Segment	Ownership Percentages	Investment Balance	
			2017	2016
United Launch Alliance	BDS	50%	$889	$914
Other	BCA, BDS, and BGS		325	328
Total equity method investments			$1,214	$1,242

Note 10 – Other Assets

Sea Launch

At December 31, 2017 and 2016, Other assets included $356 of receivables related to our former investment in the Sea Launch venture which became payable by certain Sea Launch partners following Sea Launch's bankruptcy filing in June 2009. The net amounts owed to Boeing by each of the partners are as follows: S.P. Koroley Rocket and Space Corporation Energia of Russia (RSC Energia) – $223, PO Yuzhnoye Mashinostroitelny Zavod of Ukraine – $89 and KB Yuzhnoye of Ukraine – $44.

In 2013, we filed an action in the United States District Court for the Central District of California seeking reimbursement from the other Sea Launch partners. In 2016, the United States District Court for the Central District of California issued a judgment in favor of Boeing. Later that year, we reached an agreement which we believe will enable us to recover the outstanding receivable balance from RSC Energia over the next several years. We continue to pursue collection efforts against the former Ukrainian partners in connection with the court judgment. We continue to believe the partners have the financial wherewithal to pay and intend to pursue vigorously all of our rights and remedies. In the event we are unable to secure reimbursement from RSC Energia and the Ukrainian Sea Launch partners, we could incur additional charges.

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Spirit AeroSystems

As of December 31, 2017 and 2016, Other assets included $137 and $143 of receivables related to indemnifications from Spirit AeroSystems, Inc. (Spirit), for costs incurred related to pension and retiree medical obligations of former Boeing employees who were subsequently employed by Spirit. During the fourth quarter of 2014, Boeing filed a complaint against Spirit in the Delaware Superior Court seeking to enforce our rights to indemnification and to recover from Spirit amounts incurred by Boeing for pension and retiree medical obligations. During 2017, the court ruled against Boeing and denied our claim. In January 2018, Boeing filed a notice of appeal with the Delaware Supreme Court. We believe we have substantial arguments on appeal and expect to fully recover from Spirit.

Note 11 – Liabilities, Commitments and Contingencies

Accrued Liabilities

Accrued liabilities at December 31 consisted of the following:

	2017	2016
Accrued compensation and employee benefit costs	$6,659	$5,720
Environmental	524	562
Product warranties	1,211	1,414
Forward loss recognition	1,683	1,385
Dividends payable	1,005	866
Income Taxes Payable	380	89
Other	3,830	4,655
Total	$15,292	$14,691

Environmental

The following table summarizes environmental remediation activity during the years ended December 31, 2017 and 2016.

	2017	2016
Beginning balance – January 1	$562	$566
Reductions for payments made	(45)	(47)
Changes in estimates	7	43
Ending balance – December 31	$524	$562

The liabilities recorded represent our best estimate or the low end of a range of reasonably possible costs expected to be incurred to remediate sites, including operation and maintenance over periods of up to 30 years. It is reasonably possible that we may incur charges that exceed these recorded amounts because of regulatory agency orders and directives, changes in laws and/or regulations, higher than expected costs and/or the discovery of new or additional contamination. As part of our estimating process, we develop a range of reasonably possible alternate scenarios that includes the high end of a range of reasonably possible cost estimates for all remediation sites for which we have sufficient information based on our experience and existing laws and regulations. There are some potential remediation obligations where the costs of remediation cannot be reasonably estimated. At December 31, 2017 and 2016, the high end of the estimated range of reasonably possible remediation costs exceeded our recorded liabilities by $868 and $857.

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Product Warranties

The following table summarizes product warranty activity recorded during the years ended December 31, 2017 and 2016.

	2017	2016
Beginning balance – January 1	$1,414	$1,485
Additions for current year deliveries	274	356
Reductions for payments made	(241)	(309)
Changes in estimates	(236)	(118)
Ending balance – December 31	$1,211	$1,414

Commercial Aircraft Commitments

In conjunction with signing definitive agreements 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. The probability that trade-in commitments will be exercised is determined by using both quantitative information from valuation sources and qualitative information from other sources. The probability of exercise is assessed quarterly, or as events trigger a change, and takes into consideration the current economic and airline industry environments. Trade-in commitments, which can be terminated by mutual consent with the customer, may be exercised only during the period specified in the agreement, and require advance notice by the customer. Trade-in commitment agreements at December 31, 2017 have expiration dates from 2018 through 2026. At December 31, 2017 and 2016, total contractual trade-in commitments were $1,462 and $1,485. As of December 31, 2017 and 2016, we estimated that it was probable we would be obligated to perform on certain of these commitments with net amounts payable to customers totaling $155 and $126 and the fair value of the related trade-in aircraft was $155 and $126.

Financing Commitments

Financing commitments related to aircraft on order, including options and those proposed in sales campaigns, and refinancing of delivered aircraft, totaled $10,221 and $14,847 as of December 31, 2017 and 2016. The estimated earliest potential funding dates for these commitments as of December 31, 2017 are as follows:

	Total
2018	$2,047
2019	2,975
2020	1,396
2021	1,322
2022	935
Thereafter	1,546
	$10,221

As of December 31, 2017, all of these financing commitments related to customers we believe have less than investment-grade credit. We have concluded that no reserve for future potential losses is required for these financing commitments based upon the terms, such as collateralization and interest rates, under which funding would be provided.

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Standby Letters of Credit and Surety Bonds

We have entered into standby letters of credit and surety bonds with financial institutions primarily relating to the guarantee of our future performance on certain contracts. Contingent liabilities on outstanding letters of credit agreements and surety bonds aggregated approximately $3,708 and $4,701 as of December 31, 2017 and 2016.

Commitments to ULA

We and Lockheed Martin Corporation have each committed to provide ULA with additional capital contributions in the event ULA does not have sufficient funds to make a required payment to us under an inventory supply agreement. As of December 31, 2017, ULA's total remaining obligation to Boeing under the inventory supply agreement was $120. See Note 6.

F/A-18

At December 31, 2017, our backlog included 26 F/A-18 aircraft under contract with the U.S. Navy. We have begun work or authorized suppliers to begin working on aircraft beyond those already in backlog in anticipation of future orders. At December 31, 2017, we had $155 of capitalized precontract costs and $855 of potential termination liabilities to suppliers associated with F/A-18 aircraft not yet ordered.

Company Owned Life Insurance

McDonnell Douglas Corporation insured its executives with Company Owned Life Insurance (COLI), which are life insurance policies with a cash surrender value. Although we do not use COLI currently, these obligations from the merger with McDonnell Douglas are still a commitment at this time. We have loans in place to cover costs paid or incurred to carry the underlying life insurance policies. As of December 31, 2017 and 2016, the cash surrender value was $489 and $483 and the total loans were $470 and $456. As we have the right to offset the loans against the cash surrender value of the policies, we present the net asset in Other assets on the Consolidated Statements of Financial Position as of December 31, 2017 and 2016.

United States Government Defense Environment Overview

In November 2017, Congress passed the National Defense Authorization Act for fiscal year 2018 (FY2018), which authorizes a U.S. DoD budget topline higher than the administration's budget request from May. While the appropriations process for FY2018 remains incomplete, both the House and Senate appropriations committees have also produced bills that increase the U.S. DoD budget topline above the administration's request. On February 9, 2018, Congress passed a fifth Continuing Resolution that maintains current funding levels through March 23, 2018 and includes increases to the Budget Control Act caps for defense and non-defense spending for FY2018 and FY2019. However, the Budget Control Act continues to mandate limits on U.S. government discretionary spending and remains in effect. As a result, continued budget uncertainty and the risk of future sequestration cuts will remain unless Congress acts to repeal or suspend this law.

Funding timeliness also remains a risk. If Congress is unable to pass appropriations bills or an omnibus spending bill before the expiration of the current Continuing Resolution, a government shutdown could result which may have impacts above and beyond those resulting from budget cuts, sequestration impacts or program-level appropriations. For example, requirements to furlough employees in the U.S. DoD, the Department of Transportation, or other government agencies could result in payment delays, impair our ability to perform work on existing contracts, and/or negatively impact future orders.

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In addition, there continues to be uncertainty with respect to program-level appropriations for the U.S. DoD and other government agencies, including the National Aeronautics and Space Administration (NASA), within the overall budgetary framework described above. 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.

BDS Fixed-Price Development Contracts

Fixed-price development work is inherently uncertain and subject to significant variability in estimates of the cost and time required to complete the work. BDS fixed-price contracts with significant development work include Commercial Crew, Saudi F-15, USAF KC-46A Tanker and commercial and military satellites. The operational and technical complexities of these contracts create financial risk, which could trigger termination provisions, order cancellations or other financially significant exposure. Changes to cost and revenue estimates could result in lower margins or material charges for reach-forward losses. For example, during 2017, we recorded additional reach-forward losses of $471 on the KC-46A Tanker program. Moreover, this and our other fixed-price development programs remain subject to additional reach-forward losses if we experience further technical or quality issues, schedule delays, or increased costs.

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. 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, the USAF authorized two low rate initial production (LRIP) lots for 7 and 12 aircraft valued at $2.8 billion. In January 2017, the USAF authorized an additional LRIP lot for 15 aircraft valued at $2.1 billion.

At December 31, 2017, we had approximately $347 of capitalized precontract costs and $1,024 of potential termination liabilities to suppliers.

Recoverable Costs on Government Contracts

Our final incurred costs for each year are subject to audit and review for allowability by the U.S. government, which can result in payment demands related to costs they believe should be disallowed. We work with the U.S. government to assess the merits of claims and where appropriate reserve for amounts disputed. If we are unable to satisfactorily resolve disputed costs, we could be required to record an earnings charge and/or provide refunds to the U.S. government.

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Note 12 – Arrangements with Off-Balance Sheet Risk
We enter into arrangements with off-balance sheet risk in the normal course of business, primarily in the form of guarantees.
The following table provides quantitative data regarding our third party guarantees. The maximum potential payments represent a "worst-case scenario," and do not necessarily reflect amounts that we expect to pay. Estimated proceeds from collateral and recourse represent the anticipated values of assets we could liquidate or receive from other parties to offset our payments under guarantees. The carrying amount of liabilities represents the amount included in Accrued liabilities.

	Maximum Potential Payments		Estimated Proceeds from Collateral/ Recourse		Carrying Amount of Liabilities	
December 31,	2017	2016	2017	2016	2017	2016
Contingent repurchase commitments	$1,605	$1,306	$1,605	$1,306	$9	$9
Indemnifications to ULA:						
Contributed Delta program launch inventory	72	77				
Contract pricing	261	261			7	7
Other Delta contracts	191	216				5
Credit guarantees	109	29	55	27	16	2

Contingent Repurchase Commitments The repurchase price specified in contingent repurchase commitments is generally lower than the expected fair value at the specified repurchase date. Estimated proceeds from collateral/recourse in the table above represent the lower of the contracted repurchase price or the expected fair value of each aircraft at the specified repurchase date.
Indemnifications to ULA In 2006, we agreed to indemnify ULA through December 31, 2020 against potential non-recoverability and non-allowability of $1,360 of Boeing Delta launch program inventory included in contributed assets plus $1,860 of inventory subject to an inventory supply agreement which ends on March 31, 2021. Since inception, ULA has consumed $1,288 of the $1,360 of inventory that was contributed by us and has yet to consume $72. Under the inventory supply agreement, we have recorded revenues and cost of sales of $1,528 through December 31, 2017. ULA has made payments of $1,740 to us under the inventory supply agreement and we have made $48 of net indemnification payments to ULA.
We agreed to indemnify ULA against potential losses that ULA may incur in the event ULA is unable to obtain certain additional contract pricing from the USAF for four satellite missions. In 2009, ULA filed a complaint before the Armed Services Board of Contract Appeals (ASBCA) for a contract adjustment for the price of two of these missions, followed in 2011 by a subsequent notice of appeal with respect to a third mission. The USAF did not exercise an option for a fourth mission prior to the expiration of the contract. During the second quarter of 2016, the ASBCA ruled that ULA is entitled to additional contract pricing for each of the three missions and remanded to the parties to negotiate appropriate pricing. During the fourth quarter of 2016, the USAF appealed the ASBCA's ruling. In April 2017, the USAF withdrew its appeal. If ULA is ultimately unsuccessful in obtaining additional pricing, we may be responsible for an indemnification payment up to $261 and may record up to $277 in pre-tax losses associated with the three missions.
Potential payments for Other Delta contracts include $85 related to deferred support costs and $91 related to deferred production costs. In June 2011, the Defense Contract Management Agency (DCMA) notified ULA that it had determined that $271 of deferred support costs are not recoverable under government contracts. In December 2011, the DCMA notified ULA of the potential non-recoverability of an additional $114 of deferred production costs. ULA and Boeing believe that all costs are recoverable and in November

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2011, ULA filed a certified claim with the USAF for collection of deferred support and production costs. The USAF issued a final decision denying ULA's certified claim in May 2012. In 2012, Boeing and ULA filed a suit in the Court of Federal Claims seeking recovery of the deferred support and production costs from the U.S. government, which subsequently asserted a counterclaim for credits that it alleges were offset by deferred support cost invoices. We believe that the U.S. government's counterclaim is without merit. The discovery phase of the litigation completed in 2017, and during the fourth quarter, Boeing filed a motion for summary judgment for full recovery of its costs. If, contrary to our belief, it is determined that some or all of the deferred support or production costs are not recoverable, we could be required to record pre-tax losses and make indemnification payments to ULA for up to $317 of the costs questioned by the DCMA.

Other Indemnifications In conjunction with our sales of Electron Dynamic Devices, Inc. and Rocketdyne Propulsion and Power businesses and our BCA facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma, we agreed to indemnify, for an indefinite period, the buyers for costs relating to pre-closing environmental conditions and certain other items. We are unable to assess the potential number of future claims that may be asserted under these indemnifications, nor the amounts thereof (if any). As a result, we cannot estimate the maximum potential amount of future payments under these indemnities and therefore, no liability has been recorded. To the extent that claims have been made under these indemnities and/or are probable and reasonably estimable, liabilities associated with these indemnities are included in the environmental liability disclosure in Note 11.

Credit Guarantees We have issued credit guarantees where we are obligated to make payments to a guaranteed party in the event that the original lessee or debtor does not make payments or perform certain specified services. Generally, these guarantees have been extended on behalf of guaranteed parties with less than investment-grade credit and are collateralized by certain assets. Current outstanding credit guarantees expire through 2036.

Industrial Revenue Bonds

Industrial Revenue Bonds (IRB) issued by St. Louis County were used to finance the purchase and/or construction of real and personal property at our St. Louis site. Tax benefits associated with IRBs include a twelve-year property tax abatement and sales tax exemption from St. Louis County. We record these properties on our Consolidated Statements of Financial Position. We have also purchased the IRBs and therefore are the bondholders as well as the borrower/lessee of the properties purchased with the IRB proceeds. The liabilities and IRB assets are equal and are reported net in the Consolidated Statements of Financial Position.

As of December 31, 2017 and 2016, the assets and liabilities associated with the IRBs were $166 and $64.

Note 13 – Debt

On February 16, 2017, we issued $900 of fixed rate senior notes consisting of $300 due March 1, 2022 that bear an annual interest rate of 2.125%, $300 due March 1, 2027 that bear an annual interest rate of 2.8%, and $300 due March 1, 2047 that bear an annual interest rate of 3.65%. The notes are unsecured senior obligations and rank equally in right of payment with our existing and future unsecured and unsubordinated indebtedness. The net proceeds of the issuance totaled $871, after deducting underwriting discounts, commissions and offering expenses.

Interest incurred, including amounts capitalized, was $541, $535 and $497 for the years ended December 31, 2017, 2016 and 2015, respectively. Interest expense recorded by BCC is reflected as Boeing Capital interest expense on our Consolidated Statements of Operations. Total Company interest payments were $527, $523 and $488 for the years ended December 31, 2017, 2016 and 2015, respectively.

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We have $5,000 currently available under credit line agreements, of which $2,500 is a 364-day revolving credit facility expiring in October 2018, $2,470 expires in November 2022, and $30 expires in November 2021. The 364-day credit facility has a one-year term out option which allows us to extend the maturity of any borrowings one year beyond the aforementioned expiration date. We continue to be in full compliance with all covenants contained in our debt or credit facility agreements.

Short-term debt and current portion of long-term debt at December 31 consisted of the following:

	2017	2016
Unsecured debt securities	$599	$255
Non-recourse debt and notes	33	33
Capital lease obligations	52	57
Commercial Paper	600	
Other notes	51	39
Total	$1,335	$384

Debt at December 31 consisted of the following:

	2017	2016
Unsecured debt securities		
0.95% - 4.88% due through 2047	$6,127	5,250
5.80% - 6.88% due through 2043	2,386	2,383
7.25% - 8.75% due through 2043	1,637	1,641
Commercial paper	600	
Variable rate: 3-month USD LIBOR plus 12.5 basis points due 2017		$250
Non-recourse debt and notes		
6.98% - 7.38% notes due through 2021	94	127
Capital lease obligations due through 2034	138	138
Other notes	135	163
Total debt	$11,117	$9,952

As of December 31, 2017, borrowings of commercial paper of $600, with a weighted-average interest rate of 1.4%, were supported by unused commitments under the revolving credit agreement. We had no commercial paper borrowings in 2016.

Total debt is attributable to:

	2017	2016
BCC	$2,523	$2,864
Other Boeing	8,594	7,088
Total debt	$11,117	$9,952

At December 31, 2017, $94 of debt (non-recourse debt, notes and capital lease obligations) was collateralized by customer financing assets totaling $231.

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Scheduled principal payments for debt and minimum capital lease obligations for the next five years are as follows:

	2018	2019	2020	2021	2022
Scheduled principal payments	$1,340	$1,275	$1,148	$728	$554

Note 14 – 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 fund our major pension plans through trusts. Pension assets are placed in trust solely for the benefit of the plans' participants, and are structured to maintain liquidity that is sufficient to pay benefit obligations as well as to keep pace over the long-term with the growth of obligations for future benefit payments.

We also have other postretirement benefits (OPB) other than pensions which consist principally of health care coverage for eligible retirees and qualifying dependents, and to a lesser extent, life insurance to certain groups of retirees. Retiree health care is provided principally until age 65 for approximately half those retirees who are eligible for health care coverage. Certain employee groups, including employees covered by most United Auto Workers bargaining agreements, are provided lifetime health care coverage. The funded status of the plans is measured as the difference between the plan assets at fair value and the projected benefit obligation (PBO). We have recognized the aggregate of all overfunded plans in Other assets, and the aggregate of all underfunded plans in either Accrued retiree health care or Accrued pension plan liability, net. The portion of the amount by which the actuarial present value of benefits included in the PBO exceeds the fair value of plan assets, payable in the next 12 months, is reflected in Accrued liabilities.

The components of net periodic benefit cost were as follows:

	Pension			Other Postretirement Benefits		
Years ended December 31,	2017	2016	2015	2017	2016	2015
Service cost	$402	$604	$1,764	$106	$128	$140
Interest cost	2,991	3,050	2,990	229	262	248
Expected return on plan assets	(3,847)	(3,999)	(4,031)	(7)	(8)	(8)
Amortization of prior service (credits)/costs	(39)	38	196	(137)	(126)	(136)
Recognized net actuarial loss	804	790	1,577	10	22	31
Settlement/curtailment/other losses	1	40	290			10
Net periodic benefit cost	$312	$523	$2,786	$201	$278	$285
Net periodic benefit cost included in Earnings from operations	$639	$1,979	$2,366	$262	$274	$288

The following tables show changes in the benefit obligation, plan assets and funded status of both pensions and OPB for the years ended December 31, 2017 and 2016. Benefit obligation balances presented below reflect the PBO for our pension plans, and accumulated postretirement benefit obligations (APBO) for our OPB plans.

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	Pension		Other Postretirement Benefits	
	2017	2016	2017	2016
Change in benefit obligation				
Beginning balance	$76,745	$74,388	$6,431	$7,138
Service cost	402	604	106	128
Interest cost	2,991	3,050	229	262
Plan participants’ contributions		1		
Amendments	(7)	6	(35)	(57)
Actuarial loss/(gain)	5,653	2,669	(204)	(612)
Settlement/curtailment/other	(751)	(63)		
Gross benefits paid	(4,658)	(3,903)	(481)	(469)
Subsidies			33	37
Exchange rate adjustment	18	(7)	6	4
Ending balance	$80,393	$76,745	$6,085	$6,431
Change in plan assets				
Beginning balance at fair value	$56,692	$56,514	134	$132
Actual return on plan assets	8,552	3,885	15	7
Company contribution	4,025	113	6	6
Plan participants’ contributions		1	4	7
Settlement payments	(744)	(24)		
Benefits paid	(4,530)	(3,791)	(16)	(18)
Exchange rate adjustment	16	(6)		
Ending balance at fair value	$64,011	$56,692	$143	$134
Amounts recognized in statement of financial position at December 31 consist of:				
Other assets	$218	$3		
Other accrued liabilities	(129)	(113)	(397)	(381)
Accrued retiree health care			(5,545)	(5,916)
Accrued pension plan liability, net	(16,471)	(19,943)		
Net amount recognized	($16,382)	($20,053)	($5,942)	($6,297)

Amounts recognized in Accumulated other comprehensive loss at December 31 were as follows:

	Pension		Other Postretirement Benefits	
	2017	2016	2017	2016
Net actuarial loss/(gain)	$22,942	$22,802	($59)	$152
Prior service (credits)	(1,211)	(1,243)	(226)	(328)
Total recognized in Accumulated other comprehensive loss	$21,731	$21,559	($285)	($176)

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The estimated amount that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost during the year ending December 31, 2018 is as follows:

	Pension	Other Postretirement Benefits
Recognized net actuarial loss/(gain)	$1,128	($10)
Amortization of prior service (credits)	(56)	(126)
Total	$1,072	($136)

The accumulated benefit obligation (ABO) for all pension plans was $77,414 and $74,240 at December 31, 2017 and 2016. Key information for our plans with ABO in excess of plan assets as of December 31 was as follows:

	2017	2016
Projected benefit obligation	$74,953	$76,586
Accumulated benefit obligation	71,975	74,081
Fair value of plan assets	$58,353	$56,530

Assumptions

The following assumptions, which are the weighted average for all plans, are used to calculate the benefit obligation at December 31 of each year and the net periodic benefit cost for the subsequent year.

December 31,	2017	2016	2015
Discount rate:			
Pension	3.60 %	4.00 %	4.20 %
Other postretirement benefits	3.30 %	3.70 %	3.80 %
Expected return on plan assets	6.80 %	6.80 %	7.00 %
Rate of compensation increase	5.30 %	4.40 %	4.00 %

The discount rate for each plan is determined based on the plans' expected future benefit payments using a yield curve developed from high quality bonds that are rated as Aa or better by at least half of the four rating agencies utilized as of the measurement date. The yield curve is fitted to yields developed from bonds at various maturity points. Bonds with the ten percent highest and the ten percent lowest yields are omitted. A portfolio of about 400 bonds is used to construct the yield curve. Since corporate bond yields are generally not available at maturities beyond 30 years, it is assumed that spot rates will remain level beyond that 30-year point. The present value of each plan's benefits is calculated by applying the discount rates to projected benefit cash flows. All bonds are U.S. issues, with a minimum outstanding of $50.

The pension fund's expected return on plan assets assumption is derived from a review of actual historical returns achieved by the pension trust and anticipated future long-term performance of individual asset classes. While consideration is given to recent trust performance and historical returns, the assumption represents a long-term, prospective return. The expected return on plan assets component of the net periodic benefit cost for the upcoming plan year is determined based on the expected return on plan assets assumption and the market-related value of plan assets (MRVA). Since our adoption of the accounting standard for pensions in 1987, we have determined the MRVA based on a five-year moving average of plan assets. As of December 31, 2017, the MRVA was approximately $2,260 less than the fair market value of assets.

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Assumed health care cost trend rates were as follows:

December 31,	2017	2016	2015
Health care cost trend rate assumed next year	6.00 %	6.50 %	6.50 %
Ultimate trend rate	4.50 %	5.00 %	5.00 %
Year that trend reached ultimate rate	2021	2021	2021

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. To determine the health care cost trend rates we look at a combination of information including ongoing claims cost monitoring, annual statistical analyses of claims data, reconciliation of forecast claims against actual claims, review of trend assumptions of other plan sponsors and national health trends, and adjustments for plan design changes, workforce changes, and changes in plan participant behavior. A one-percentage-point change in assumed health care cost trend rates would have the following effect:

	Increase	Decrease
Effect on total of service and interest cost	$45	($37)
Effect on postretirement benefit obligation	529	(448)

Plan Assets

Investment Strategy The overall objective of our pension assets is to earn a rate of return over time to satisfy the benefit obligations of the pension plans and to maintain sufficient liquidity to pay benefits and address other cash requirements of the pension fund. Specific investment objectives for our long-term investment strategy include reducing the volatility of pension assets relative to pension liabilities, achieving a competitive total investment return, achieving diversification between and within asset classes and managing other risks. Investment objectives for each asset class are determined based on specific risks and investment opportunities identified.

We periodically update our long-term, strategic asset allocations. We use various analytics to determine the optimal asset mix and consider plan liability characteristics, liquidity characteristics, funding requirements, expected rates of return and the distribution of returns. We identify investment benchmarks to evaluate performance for the asset classes in the strategic asset allocation that are market-based and investable where possible. Actual allocations to each asset class vary from target allocations due to periodic investment strategy changes, market value fluctuations, the length of time it takes to fully implement investment allocation positions, and the timing of benefit payments and contributions. Short-term investments and exchange-traded derivatives are used to rebalance the actual asset allocation to the target asset allocation. The asset allocation is monitored and rebalanced on a monthly basis. The actual and target allocations by asset class for the pension assets at December 31 were as follows:

	Actual Allocations		Target Allocations	
Asset Class	2017	2016	2017	2016
Fixed income	46 %	48 %	47 %	47 %
Global equity	31	28	29	29
Private equity	5	5	5	5
Real estate and real assets	8	9	9	9
Hedge funds	10	10	10	10
Total	100 %	100 %	100 %	100 %

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Fixed income securities are invested primarily in a diversified portfolio of long duration instruments. Global equity securities are invested in a diversified portfolio of U.S. and non-U.S. companies, across various industries and market capitalizations.

Real estate and real assets include global private investments that may be held through an investment in a limited partnership (LP) or other fund structures and publicly traded investments (such as Real Estate Investment Trusts (REITs) in the case of real estate). Real estate includes, but is not limited to, investments in office, retail, apartment and industrial properties. Real assets include, but are not limited to, investments in natural resources (such as energy, farmland and timber), commodities and infrastructure. Private equity investment vehicles are primarily limited partnerships (LPs) that mainly invest in U.S. and non-U.S. leveraged buyout, venture capital and special situation strategies.

Hedge fund investments seek to capitalize on inefficiencies identified across and within different asset classes or markets. Hedge fund strategy types include, but are not limited to directional, event driven, relative value, long-short and multi-strategy.

Investment managers are retained for explicit investment roles specified by contractual investment guidelines. Certain investment managers are authorized to use derivatives, such as equity or bond futures, swaps, options and currency futures or forwards. Derivatives are used to achieve the desired market exposure of a security or an index, transfer value-added performance between asset classes, achieve the desired currency exposure, adjust portfolio duration or rebalance the total portfolio to the target asset allocation.

As a percentage of total pension plan assets, derivative net notional amounts were 5.0% and 6.0% for fixed income, including to-be-announced mortgage-backed securities and treasury forwards, and 6.9% and 1.2% for global equity and commodities at December 31, 2017 and 2016.

In August 2017, the Company elected to contribute $3,500 of our common stock to the pension fund. An independent fiduciary was retained to manage and liquidate the stock over time at its discretion. The liquidation of the common stock holdings was completed during the fourth quarter of 2017.

Risk Management In managing the plan assets, we review and manage risk associated with funded status risk, interest rate risk, market risk, counterparty risk, liquidity risk and operational risk. Liability matching and asset class diversification are central to our risk management approach and are integral to the overall investment strategy. Further, asset classes are constructed to achieve diversification by investment strategy, by investment manager, by industry or sector and by holding. Investment manager guidelines for publicly traded assets are specified and are monitored regularly through the custodian. Credit parameters for counterparties have been established for managers permitted to trade over-the-counter derivatives. Valuation is governed through several types of procedures, including reviews of manager valuation policies, custodian valuation processes, pricing vendor practices, pricing reconciliation, and periodic, security-specific valuation testing.

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Fair Value Measurements The following table presents our plan assets using the fair value hierarchy as of December 31, 2017 and 2016. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs, and Level 3 includes fair values estimated using significant unobservable inputs.

	December 31, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Fixed income securities:								
Corporate	$19,603		$19,591	$12	$16,730		$16,723	$7
U.S. government and agencies	5,430		5,430		4,876		4,875	1
Mortgage backed and asset backed	760		460	300	706		370	336
Municipal	1,355		1,355		1,398		1,398	
Sovereign	1,237		1,237		782		782	
Other	118	$59	59		74	$9	65	
Derivatives:								
Assets	49		49		40		40	
Liabilities	(25)		(25)		(38)		(38)	
Cash equivalents and other short-term investments	1,778		1,778		1,037		1,037	
Equity securities:								
U.S. common and preferred stock	4,615	4,615			5,374	5,373		1
Non-U.S. common and preferred stock	6,204	6,204			5,746	5,746		
Derivatives:								
Assets	4	1	3		6		6	
Liabilities	(4)		(4)		(8)		(8)	
Private equity								
Real estate and real assets:								
Real estate	462	462			468	468		
Real assets	705	449	253	3	672	372	295	5
Derivatives:								
Assets	17		17		4		4	
Liabilities	(3)		(3)		(1)		(1)	
Total	$42,305	$11,790	$30,200	$315	$37,866	$11,968	$25,548	$350
Fixed income common/collective/pooled funds	$1,257				$1,625			
Fixed income other	303				227			
Equity common/collective pooled funds	6,786				4,962			
Private equity	2,767				2,639			
Real estate and real assets	3,744				3,625			
Hedge funds	6,440				5,441			
Total investments measured at NAV as a practical expedient	$21,297				$18,519			
Cash	$170				$160			
Receivables	436				374			
Payables	(197)				(227)			
Total	$64,011				$56,692			

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Fixed income securities are primarily valued upon a market approach, using matrix pricing and considering a security's relationship to other securities for which quoted prices in an active market may be available, or an income approach, converting future cash flows to a single present value amount. Inputs used in developing fair value estimates include reported trades, broker quotes, benchmark yields, and base spreads.

Common/collective/pooled funds are typically common or collective trusts valued at their NAVs that are calculated by the investment manager or sponsor of the fund and have daily or monthly liquidity. Derivatives included in the table above are over-the-counter and are primarily valued using an income approach with inputs that include benchmark yields, swap curves, cash flow analysis, rating agency data and interdealer broker rates. Exchange-traded derivative positions are reported in accordance with changes in daily variation margin which is settled daily and therefore reflected in the payables and receivables portion of the table.

Cash equivalents and other short-term investments (which are used to pay benefits) are held in a separate account which consists of a commingled fund (with daily liquidity) and separately held short-term securities and cash equivalents. All of the investments in this cash vehicle are valued daily using a market approach with inputs that include quoted market prices for similar instruments. In the event a market price is not available for instruments with an original maturity of one year or less, amortized cost is used as a proxy for fair value. Common and preferred stock equity securities are primarily valued using a market approach based on the quoted market prices of identical instruments.

Private equity and private debt NAV valuations are based on the valuation of the underlying investments, which include inputs such as cost, operating results, discounted future cash flows and market based comparable data. For those investments reported on a one-quarter lagged basis (primarily LPs) we use NAVs, adjusted for subsequent cash flows and significant events.

Real estate and real asset NAV valuations are based on valuation of the underlying investments, which include inputs such as cost, discounted future cash flows, independent appraisals and market based comparable data. For those investments reported on a one-quarter lagged basis (primarily LPs) NAVs are adjusted for subsequent cash flows and significant events. Publicly traded REITs and infrastructure stocks are valued using a market approach based on quoted market prices of identical instruments. Exchange-traded commodities futures positions are reported in accordance with changes in daily variation margin which is settled daily and therefore reflected in the payables and receivables portion of the table.

Hedge fund NAVs are generally based on the valuation of the underlying investments. This is primarily done by applying a market or income valuation methodology depending on the specific type of security or instrument held.

Investments in private equity, private debt, real estate, real assets, and hedge funds are primarily calculated and reported by the General Partner (GP), fund manager or third party administrator. Additionally, some investments in fixed income and equity are made via commingled vehicles and are valued in a similar fashion. Pension assets invested in commingled and limited partnership structures rely on the NAV of these investments as the practical expedient for the valuations.

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The following tables present a reconciliation of Level 3 assets (excluding investments which are valued using NAVs as a practical expedient) held during the years ended December 31, 2017 and 2016. Transfers into and out of Level 3 are reported at the beginning-of-year values.

	January 1 2017 Balance	Net Realized and Unrealized Gains/(Losses)	Net Purchases, Issuances and Settlements	Net Transfers Out of Level 3	December 31 2017 Balance
Fixed income securities:					
Corporate [1]	$12		$1	($1)	$12
U.S. government and agencies	1			(1)	
Mortgage backed and asset backed [1]	331	$10	(39)	(2)	300
Equity securities:					
U.S. common and preferred stock	1	(1)			
Real assets	5		(2)		3
Total	$350	$9	($40)	($4)	$315

	January 1 2016 Balance	Net Realized and Unrealized Gains/(Losses)	Net Purchases, Issuances and Settlements	Net Transfers Out of Level 3	December 31 2016 Balance
Fixed income securities:					
Corporate [1]	$11		($1)	($3)	$7
U.S. government and agencies	1				1
Mortgage backed and asset backed [1]	440	$7	(93)	(18)	336
Equity securities:					
U.S. common and preferred stock	1				1
Non-U.S. common and preferred stock	2		(2)		
Private equity	3	(3)			
Real assets	6		(1)		5
Total	$464	$4	($97)	($21)	$350

(1) Certain fixed income securities were reclassified between mortgage backed and asset backed to corporate on January 1, 2017 and 2016.

The changes in unrealized gains for Level 3 mortgage backed and asset backed fixed income securities still held at December 31, 2017 and 2016 were $6 and $4.

OPB Plan Assets The majority of OPB plan assets are invested in a balanced index fund which is comprised of approximately 60% equities and 40% debt securities. The index fund is valued using a market approach based on the quoted market price of an identical instrument (Level 1). The expected rate of return on these assets does not have a material effect on the net periodic benefit cost.

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Cash Flows

Contributions Required pension contributions under the Employee Retirement Income Security Act (ERISA), as well as rules governing funding of our non-US pension plans, are not expected to be significant in 2018. During the third quarter of 2017, we contributed $500 in cash and $3,500 in common stock. We do not expect to make contributions to our pension plans in 2018.

Estimated Future Benefit Payments The table below reflects the total pension benefits expected to be paid from the plans or from our assets, including both our share of the benefit cost and the participants' share of the cost, which is funded by participant contributions. OPB payments reflect our portion only.

Year(s)	2018	2019	2020	2021	2022	2023-2027
Pensions	$4,758	$4,712	$4,740	$4,703	$4,631	$22,770
Other postretirement benefits:						
Gross benefits paid	496	507	517	520	516	2,364
Subsidies	(16)	(16)	(17)	(17)	(17)	(87)
Net other postretirement benefits	$480	$491	$500	$503	$499	$2,277

Termination Provisions

Certain of the pension plans provide that, in the event there is a change in control of the Company which is not approved by the Board of Directors and the plans are terminated within five years thereafter, the assets in the plan first will be used to provide the level of retirement benefits required by ERISA, and then any surplus will be used to fund a trust to continue present and future payments under the postretirement medical and life insurance benefits in our group insurance benefit programs.

Should we terminate certain pension plans under conditions in which the plan's assets exceed that plan's obligations, the U.S. government will be entitled to a fair allocation of any of the plan's assets based on plan contributions that were reimbursed under U.S. government contracts.

Defined Contribution Plans

We provide certain defined contribution plans to all eligible employees. The principal plans are the Company-sponsored 401(k) plans. The expense for these defined contribution plans was $1,522, $1,413 and $768 in 2017, 2016 and 2015, respectively.

Note 15 – Share-Based Compensation and Other Compensation Arrangements

Share-Based Compensation

Our 2003 Incentive Stock Plan, as amended and restated, permits awards of incentive and non-qualified stock options, stock appreciation rights, restricted stock or units, performance shares, performance restricted stock or units, performance units and other stock and cash-based awards to our employees, officers, directors, consultants, and independent contractors. The aggregate number of shares of our stock authorized for issuance under the plan is 87,000,000.

Shares issued as a result of stock option exercises or conversion of stock unit awards will be funded out of treasury shares, except to the extent there are insufficient treasury shares, in which case new shares will be issued. We believe we currently have adequate treasury shares to satisfy these issuances during 2018.

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Share-based plans expense is primarily included in General and administrative expense since it is incentive compensation issued primarily to our executives. The share-based plans expense and related income tax benefit were as follows:

Years ended December 31,	2017	2016	2015
Stock options		$4	$30
Restricted stock units and other awards	212	189	160
Share-based plans expense	$212	$193	$190
Income tax benefit	$46	$69	$68

Stock Options

We discontinued granting options in 2014, replacing them with performance-based restricted stock units. Options granted through January 2014 had an exercise price equal to the fair market value of our stock on the date of grant and expire ten years after the date of grant. The stock options vested over a period of three years and were fully vested at December 31, 2017.

Stock option activity for the year ended December 31, 2017 is as follows:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Number of shares under option:				
Outstanding at beginning of year	8,646,612	$72.64		
Exercised	(4,224,194)	73.61		
Expired	(5,200)	89.65		
Outstanding at end of year	4,417,218	$71.69	3.93	$986
Exercisable at end of year	4,417,218	$71.69	3.93	$986

The total intrinsic value of options exercised during the years ended December 31, 2017, 2016 and 2015 was $491, $265 and $385, with a related tax benefit of $175, $94 and $135, respectively. The grant date fair value of stock options vested during the years ended December 31, 2017, 2016 and 2015 was $0, $27 and $56, respectively.

Restricted Stock Units

In February 2017, 2016 and 2015, we granted to our executives 523,835, 777,837 and 590,778 restricted stock units (RSUs) as part of our long-term incentive program with grant date fair values of $178.72, $117.50 and $154.64 per unit, respectively. The RSUs granted under this program will vest and settle in common stock (on a one-for-one basis) on the third anniversary of the grant date. If an executive terminates employment because of retirement, involuntary layoff, disability, or death, the employee (or beneficiary) will receive a proration of stock units based on active employment during the three-year service period. In all other cases, the RSUs will not vest and all rights to the stock units will terminate. In addition to RSUs awarded under our long-term incentive program, we grant RSUs to certain executives and employees to encourage retention or to reward various achievements. These RSUs are labeled other RSUs in the table below. The fair values of all RSUs are estimated using the average of the high and low stock prices on the date of grant.

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RSU activity for the year ended December 31, 2017 was as follows:

	Long-Term Incentive Program	Other
Number of units:		
Outstanding at beginning of year	1,814,644	1,077,920
Granted	570,538	390,152
Dividends	45,799	30,477
Forfeited	(142,907)	(40,670)
Distributed	(660,972)	(301,417)
Outstanding at end of year	1,627,102	1,156,462
Unrecognized compensation cost	$98	$82
Weighted average remaining contractual life (years)	1.8	3.4

The number of vested but undistributed RSUs at December 31, 2017 was not significant.

Performance-Based Restricted Stock Units

Performance-Based Restricted Stock Units (PBRSUs) are stock units that pay out based on the Company’s total shareholder return as compared to a group of peer companies over a three-year period. The award payout can range from 0% to 200% of the initial PBRSU grant, but will not exceed 400% of the initial value (excluding dividend equivalent credits). The PBRSUs granted under this program will vest at the payout amount and settle in common stock (on a one-for-one basis) on the third anniversary of the grant date. If an executive terminates employment because of retirement, involuntary layoff, disability, or death, the employee (or beneficiary) remains eligible under the award and, if the award is earned, will receive a proration of stock units based on active employment during the three-year service period. In all other cases, the PBRSUs will not vest and all rights to the stock units will terminate.

In February 2017, 2016 and 2015, we granted to our executives 492,273, 721,176 and 556,203 PBRSUs as part of our long-term incentive program. Compensation expense for the award is recognized over the three-year performance period based upon the grant date fair value. The grant date fair values were estimated using a Monte-Carlo simulation model with the assumptions presented below. The model includes no expected dividend yield as the units earn dividend equivalents.

Grant Year	Grant Date	Performance Period	Expected Volatility	Risk Free Interest Rate	Grant Date Fair Value
2017	2/27/2017	3 years	21.37 %	1.46 %	190.17
2016	2/22/2016	3 years	22.44 %	0.92 %	126.74
2015	2/23/2015	3 years	20.35 %	1.03 %	164.26

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PBRSU activity for the year ended December 31, 2017 was as follows:

	Long-Term Incentive Program
Number of units:	
Outstanding at beginning of year	1,746,511
Granted	492,273
Performance based adjustment [(1)]	137,363
Dividends	54,683
Forfeited	(130,367)
Distributed	(748,729)
Outstanding at end of year	1,551,734
Unrecognized compensation cost	$90
Weighted average remaining contractual life (years)	1.8

(1) Represents net incremental number of units issued at vesting based on TSR for units granted in 2014

Other Compensation Arrangements

Performance Awards

Performance Awards are cash units that pay out based on the achievement of long-term financial goals at the end of a three-year period. Each unit has an initial value of $100 dollars. The amount payable at the end of the three-year performance period may be anywhere from $0 to $200 dollars per unit, depending on the Company's performance against plan for a three-year period. The Compensation Committee has the discretion to pay these awards in cash, stock, or a combination of both after the three-year performance period. Compensation expense, based on the estimated performance payout, is recognized ratably over the performance period.

During 2017, 2016 and 2015, we granted Performance Awards to our executives as part of our long-term incentive program with the payout based on the achievement of financial goals for each three-year period following the grant date. The minimum payout amount is $0 and the maximum amount we could be required to pay out for the 2017, 2016 and 2015 Performance Awards is $352, $318 and $312, respectively. The 2015 grant is expected to be paid out in cash in March 2018.

Deferred Compensation

The Company has deferred compensation plans which permit employees to defer a portion of their salary, bonus, certain other incentive awards, and retirement contributions. Participants can diversify these amounts among 22 investment funds including a Boeing stock unit account.

Total expense related to deferred compensation was $240, $46 and $63 in 2017, 2016 and 2015, respectively. As of December 31, 2017 and 2016, the deferred compensation liability which is being marked to market was $1,547 and $1,289.

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Note 16 – Shareholders' Equity

On December 11, 2017, the Board approved a new repurchase plan for up to $18,000 of common stock, replacing the previously authorized program. The program will expire when we have used all authorized funds or is otherwise terminated.

As of December 31, 2017 and 2016, there were 1,200,000,000 shares of common stock and 20,000,000 shares of preferred stock authorized. No preferred stock has been issued.

Changes in Share Balances

The following table shows changes in each class of shares:

	Common Stock	Treasury Stock
Balance at January 1, 2015	1,012,261,159	305,533,606
Issued		(7,288,113)
Acquired		47,391,861
Balance at December 31, 2015	1,012,261,159	345,637,354
Issued		(6,376,868)
Acquired		55,849,082
Balance at December 31, 2016	1,012,261,159	395,109,568
Issued		(20,746,426)
Acquired		46,859,184
Balance at December 31, 2017	1,012,261,159	421,222,326

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Accumulated Other Comprehensive Loss

Changes in Accumulated other comprehensive loss (AOCI) by component for the years ended December 31, 2017, 2016 and 2015 were as follows:

	Currency Translation Adjustments	Unrealized Gains and Losses on Certain Investments	Unrealized Gains and Losses on Derivative Instruments	Defined Benefit Pension Plans & Other Postretirement Benefits	Total [1]
Balance at January 1, 2015	$53	($8)	($136)	($13,812)	($13,903)
Other comprehensive (loss)/income before reclassifications	(92)	8	(140)	173	(51)
Amounts reclassified from AOCI			79	1,127 [2]	1,206
Net current period Other comprehensive (loss)/income	(92)	8	(61)	1,300	1,155
Balance at December 31, 2015	($39)	$—	($197)	($12,512)	($12,748)
Other comprehensive loss before reclassifications	(104)	(2)	(8)	(1,320)	(1,434)
Amounts reclassified from AOCI			78	481 [2]	559
Net current period Other comprehensive (loss)/income	(104)	(2)	70	(839)	(875)
Balance at December 31, 2016	($143)	($2)	($127)	($13,351)	($13,623)
Other comprehensive income/(loss) before reclassifications	128	1	119	(478)	(230)
Amounts reclassified from AOCI			52	425 [2]	477
Net current period Other comprehensive income/(loss)	128	1	171	(53)	247
Balance at December 31, 2017	($15)	($1)	$44	($13,404)	($13,376)

(1) Net of tax.

(2) Primarily relates to amortization of actuarial losses for the years ended December 31, 2017, 2016, and 2015 totaling $542, $524, and $1,038 (net of tax of ($272), ($288), and ($570)), respectively. These are included in the net periodic pension cost of which a portion is allocated to production as inventoried costs. See Note 14.

Note 17 – Derivative Financial Instruments

Cash Flow Hedges

Our cash flow hedges include foreign currency forward contracts and commodity purchase contracts. We use foreign currency forward contracts to manage currency risk associated with certain transactions, specifically forecasted sales and purchases made in foreign currencies. Our foreign currency contracts hedge forecasted transactions through 2024. We use commodity derivatives, such as fixed-price purchase commitments to hedge against potentially unfavorable price changes for items used in production. Our commodity contracts hedge forecasted transactions through 2021.

Fair Value Hedges

Interest rate swaps under which we agree to pay variable rates of interest are designated as fair value hedges of fixed-rate debt. The net change in fair value of the derivatives and the hedged items is reported in Boeing Capital interest expense.

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Derivative Instruments Not Receiving Hedge Accounting Treatment

We have entered into agreements to purchase and sell aluminum to address long-term strategic sourcing objectives and non-U.S. business requirements. These agreements are derivative instruments for accounting purposes. The quantities of aluminum in these agreements offset and are priced at prevailing market prices. We also hold certain foreign currency forward contracts which do not qualify for hedge accounting treatment.

Notional Amounts and Fair Values

The notional amounts and fair values of derivative instruments in the Consolidated Statements of Financial Position as of December 31 were as follows:

	Notional amounts[1]		Other assets		Accrued liabilities	
	2017	2016	2017	2016	2017	2016
Derivatives designated as hedging instruments:						
Foreign exchange contracts	$2,930	$2,584	$131	$34	($63)	($225)
Interest rate contracts	125	125	3	6		
Commodity contracts	56	53	4	7	(6)	(5)
Derivatives not receiving hedge accounting treatment:						
Foreign exchange contracts	406	465	16	21	(5)	(17)
Commodity contracts	563	648				—
Total derivatives	$4,080	$3,875	154	68	(74)	(247)
Netting arrangements			(61)	(45)	61	45
Net recorded balance			$93	$23	($13)	($202)

[1] Notional amounts represent the gross contract/notional amount of the derivatives outstanding.

Gains/(losses) associated with our cash flow and undesignated hedging transactions and their effect on Other comprehensive income/(loss) and Net earnings were as follows:

Years ended December 31,	2017	2016
Effective portion recognized in Other comprehensive income/(loss), net of taxes:		
Foreign exchange contracts	$123	($9)
Commodity contracts	(4)	1
Effective portion reclassified out of Accumulated other comprehensive loss into earnings, net of taxes:		
Foreign exchange contracts	(50)	(70)
Commodity contracts	(2)	(8)
Forward points recognized in Other income, net:		
Foreign exchange contracts	8	13
Undesignated derivatives recognized in Other income, net:		
Foreign exchange contracts	8	(2)

Based on our portfolio of cash flow hedges, we expect to reclassify losses of $12 (pre-tax) out of Accumulated other comprehensive loss into earnings during the next 12 months. Ineffectiveness related to our hedges recognized in Other income was insignificant for the years ended December 31, 2017 and 2016.

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We have derivative instruments with credit-risk-related contingent features. For foreign exchange contracts with original maturities of at least five years, our derivative counterparties could require settlement if we default on our five-year credit facility. For certain commodity contracts, our counterparties could require collateral posted in an amount determined by our credit ratings. The fair value of foreign exchange and commodity contracts that have credit-risk-related contingent features that are in a net liability position at December 31, 2017 was $13. At December 31, 2017, there was no collateral posted related to our derivatives.

Note 18 – Significant Group Concentrations of Risk

Credit Risk

Financial instruments involving potential credit risk are predominantly with commercial aircraft customers and the U.S. government. Of the $13,639 in gross accounts receivable and gross customer financing included in the Consolidated Statements of Financial Position as of December 31, 2017, $5,572 related predominantly to commercial aircraft customers ($2,512 of accounts receivable and $3,060 of customer financing) and $5,989 related to the U.S. government.

Of the $3,061 in gross customer financing, $1,828 related to customers we believe have less than investment-grade credit including Silk Way, American, and Hawaiian Airlines who were associated with 14%, 8%, and 7%, respectively, of our financing portfolio. Financing for aircraft is collateralized by security in the related asset and in some instances security in other assets as well.

Other Risk

As of December 31, 2017, approximately 37% of our total workforce was represented by collective bargaining agreements.

Note 19 – Fair Value Measurements

The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant unobservable inputs. The following table presents our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	December 31, 2017			December 31, 2016		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets						
Money market funds	$1,582	$1,582		$2,858	$2,858	
Available-for-sale investments:						
Commercial paper	70		70	162		162
Corporate notes	382		382	271		271
U.S. government agencies	47		47	63		63
Other	18	18		46	46	
Derivatives	93		93	23		$23
Total assets	$2,192	$1,600	$592	$3,423	$2,904	$519
Liabilities						
Derivatives	($13)		($13)	($202)		($202)
Total liabilities	($13)		($13)	($202)		($202)

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Money market funds, available-for-sale debt investments and equity securities are valued using a market approach based on the quoted market prices or broker/dealer quotes of identical or comparable instruments.
Derivatives include foreign currency, commodity and interest rate contracts. Our foreign currency forward contracts are valued using an income approach based on the present value of the forward rate less the contract rate multiplied by the notional amount. Commodity derivatives are valued using an income approach based on the present value of the commodity index prices less the contract rate multiplied by the notional amount. The fair value of our interest rate swaps is derived from a discounted cash flow analysis based on the terms of the contract and the interest rate curve.
Certain assets have been measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3). The following table presents the nonrecurring losses recognized for the years ended December 31 due to long-lived asset impairment, and the fair value and asset classification of the related assets as of the impairment date:

	2017		2016	
	Fair Value	Total Losses	Fair Value	Total Losses
Investments	$1	($44)		
Operating lease equipment	90	(32)	$84	($52)
Other assets and Acquired intangible assets	14	(23)	12	(10)
Property, plant and equipment	8	(2)	10	(9)
Total	$113	($101)	$106	($71)

Investments, Acquired intangible assets and Property, plant and equipment were primarily valued using an income approach based on the discounted cash flows associated with the underlying assets. The fair value of the impaired operating lease equipment is derived by calculating a median collateral value from a consistent group of third party aircraft value publications. The values provided by the third party aircraft publications are derived from their knowledge of market trades and other market factors. Management reviews the publications quarterly to assess the continued appropriateness and consistency with market trends. Under certain circumstances, we adjust values based on the attributes and condition 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 third party publications, or on the expected net sales price for the aircraft.

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For Level 3 assets that were measured at fair value on a nonrecurring basis during the year ended December 31, 2017, the following table presents the fair value of those assets as of the measurement date, valuation techniques and related unobservable inputs of those assets.

	Fair Value	Valuation Technique(s)	Unobservable Input	Range Median or Average
Operating lease equipment	$90	Market approach	Aircraft value publications	$140 - $191[1] Median $167
			Aircraft condition adjustments	($77) - $0[2] Net ($77)

(1) The range represents the sum of the highest and lowest values for all aircraft subject to fair value measurement, according to the third party aircraft valuation publications that we use in our valuation process.

(2) The negative amount represents the sum, for all aircraft subject to fair value measurement, of all downward adjustments based on consideration of individual aircraft attributes and condition. The positive amount represents the sum of all such upward adjustments.

Fair Value Disclosures

The fair values and related carrying values of financial instruments that are not required to be remeasured at fair value on the Consolidated Statements of Financial Position at December 31 were as follows:

	December 31, 2017				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets					
Notes receivable, net	$677	$682		$682	
Liabilities					
Debt, excluding capital lease obligations and commercial paper	(10,380)	(11,923)		(11,823)	($100)

	December 31, 2016				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets					
Notes receivable, net	$807	$803		$803	
Liabilities					
Debt, excluding capital lease obligations	(9,815)	(11,209)		(11,078)	($131)

The fair values of notes receivable are estimated with discounted cash flow analysis using interest rates currently offered on loans with similar terms to borrowers of similar credit quality. The fair value of our debt that is traded in the secondary market is classified as Level 2 and is based on current market yields. For our debt that is not traded in the secondary market, the fair value is classified as Level 2 and is based on our indicative borrowing cost derived from dealer quotes or discounted cash flows. The fair values of our debt classified as Level 3 are based on discounted cash flow models using the implied yield from similar securities. With regard to other financial instruments with off-balance sheet risk, it is not practicable to estimate the fair value of our indemnifications and financing commitments because the amount and timing of those arrangements are uncertain. Items not included in the above disclosures include cash, restricted cash, time deposits and other deposits, commercial paper, money market funds, Accounts receivable, Accounts payable and long-term payables. The carrying values of those items, as reflected in the

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Consolidated Statements of Financial Position, approximate their fair value at December 31, 2017 and 2016. The fair value of assets and liabilities whose carrying value approximates fair value is determined using Level 2 inputs, with the exception of cash (Level 1).

Note 20 – Legal Proceedings

Various legal proceedings, claims and investigations related to products, contracts, employment and other matters are pending against us.

In addition, we are subject to various U.S. government inquiries and investigations from which civil, criminal or administrative proceedings could result or have resulted in the past. Such proceedings involve or could involve claims by the government for fines, penalties, compensatory and treble damages, restitution and/or forfeitures. Under government regulations, a company, or one or more of its operating divisions or subdivisions, can also be suspended or debarred from government contracts, or lose its export privileges, based on the results of investigations. We believe, based upon current information, that the outcome of any such legal proceeding, claim, or government dispute and investigation will not have a material effect on our financial position, results of operations, or cash flows.

Note 21 – Segment Information

Effective July 1, 2017, we now operate in four reportable segments: BCA, BDS, BGS, and BCC. The new segment, BGS, brings together the Commercial Aviation Services businesses, previously included in the BCA segment, and certain BDS businesses (primarily those previously included in the Global Services & Support segment). All other activities fall within Unallocated items, eliminations and other. See page 51 for the Summary of Business Segment Data, which is an integral part of this note. Prior year numbers have been revised to conform to the current segment presentation.

BCA develops, produces and markets commercial jet aircraft principally to the commercial airline industry worldwide.

BDS is engaged in the research, development, production and modification of the following products and related services: manned and unmanned military aircraft and weapons systems, surveillance and engagement, strategic defense and intelligence systems, satellite systems and space exploration.

BGS provides parts, maintenance, modifications, logistics support, training, data analytics and information-based services to commercial and government customers worldwide.

BCC facilitates, arranges, structures and provides selective financing solutions for our Boeing customers.

Unallocated items, eliminations and other include common internal services that support Boeing’s global business operations, intercompany guarantees provided to BCC and eliminations of certain sales between segments.

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Revenues, including foreign military sales, are reported by customer location and consist of the following:

Years ended December 31,	2017	2016	2015
Asia, other than China	$8,899	$10,553	$13,433
Europe	11,457	13,790	12,248
China	11,911	10,312	12,556
Middle East	12,287	13,297	10,846
Oceania	2,061	1,843	2,601
Canada	2,197	2,076	1,870
Africa	755	1,999	1,398
Latin America, Caribbean and other	1,494	1,936	1,875
Total non-U.S. revenues	51,061	55,806	56,827
United States	42,331	38,765	39,287
Total revenues	$93,392	$94,571	$96,114

Revenues from the U.S. government (including foreign military sales through the U.S. government), primarily recorded at BDS and BGS, represented 31%, 23% and 27% of consolidated revenues for 2017, 2016 and 2015, respectively. Approximately 5% and 4% of operating assets were located outside the United States as of December 31, 2017 and 2016. The information in the following tables is derived directly from the segments' internal financial reporting used for corporate management purposes.

Depreciation and Amortization

Years ended December 31,	2017	2016	2015
Commercial Airplanes	$521	$442	$388
Defense, Space, & Security	252	220	248
Global Services	322	312	317
Boeing Capital Corporation	70	83	87
Unallocated items, eliminations and other	904	853	793
Total	$2,069	$1,910	$1,833

Capital Expenditures

Years ended December 31,	2017	2016	2015
Commercial Airplanes	$636	$830	$819
Defense, Space, & Security	210	290	226
Global Services	180	209	132
Unallocated items, eliminations and other	713	1,284	1,273
Total	$1,739	$2,613	$2,450

Unallocated capital expenditures relate primarily to assets managed centrally on behalf of the five principal segments.
We recorded Earnings from operations associated with our equity method investments of $233, $303 and $274, primarily in our BDS segment, for the years ended December 31, 2017, 2016 and 2015, respectively.
For segment reporting purposes, we record Commercial Airplanes segment revenues and cost of sales for airplanes transferred to other segments. Such transfers may include airplanes accounted for as operating leases and considered transferred to the BCC segment and airplanes transferred to the BDS

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segment for further modification prior to delivery to the customer. In addition, BGS segment revenue and costs include certain services provided to other segments. The revenues and cost of sales for these transfers are eliminated in the Unallocated items and eliminations caption. For segment reporting purposes, we record BDS revenues and cost of sales for the modification performed on airplanes received from Commercial Airplanes when the airplane is delivered to the customer or at the attainment of performance milestones.

Intersegment revenues, eliminated in Unallocated items, eliminations and other, are shown in the following table.

Years ended December 31,	2017	2016	2015
Commercial Airplanes	$1,571	$2,001	$1,700
Global Services	49	75	95
Boeing Capital	28	16	15
Total	$1,648	$2,092	$1,810

Unallocated Items, Eliminations and other

Unallocated items, eliminations and other includes costs not attributable to business segments as well as intercompany profit eliminations. We generally allocate costs to business segments based on the U.S. federal cost accounting standards. Components of Unallocated items, eliminations and other are shown in the following table.

Years ended December 31,	2017	2016	2015
Share-based plans	($77)	($66)	($76)
Deferred compensation	(240)	(46)	(63)
Amortization of previously capitalized interest	(98)	(94)	(90)
Eliminations and other unallocated items	(640)	(527)	(511)
Sub-total	(1,055)	(733)	(740)
Pension	1,120	217	(421)
Postretirement	188	153	123
Pension and Postretirement	1,308	370	(298)
Total	$253	($363)	($1,038)

Unallocated Pension and Other Postretirement Benefit Expense

Unallocated pension and other postretirement benefit expense represent the portion of pension and other postretirement benefit costs that are not recognized by business segments for segment reporting purposes. Pension costs, comprising GAAP service and prior service costs, are allocated to BCA. Pension costs are allocated to BDS and BGS businesses supporting government customers using U.S. Government Cost Accounting Standards (CAS), which employ different actuarial assumptions and accounting conventions than GAAP. These costs are allocable to government contracts. Other postretirement benefit costs are allocated to business segments based on CAS, which is generally based on benefits paid.

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Assets

Segment assets are summarized in the table below.

December 31,	2017	2016
Commercial Airplanes	$47,737	$46,745
Defense, Space & Security	15,865	14,123
Global Services	12,353	11,490
Boeing Capital	3,156	4,139
Unallocated items, eliminations and other	13,222	13,500
Total	$92,333	$89,997

Assets included in Unallocated items, eliminations and other primarily consist of Cash and cash equivalents, Short-term and other investments, Deferred tax assets, capitalized interest and assets held centrally as well as intercompany eliminations.

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Note 22 – Quarterly Financial Data (Unaudited)

	2017				2016			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Total revenues	$25,368	$24,309	$22,739	$20,976	$23,286	$23,898	$24,755	$22,632
Total costs and expenses	(20,427)	(19,987						