BOEING TO REDUCE 747 PRODUCTION RATE, RECOGNIZE FOURTH-QUARTER CHARGE

News / Manufacturer

The Boeing Company announced it will lower the production rate on the 747-8 program to match supply with near-term demand in the cargo market. To account for the market and production impacts, the company will recognize a $569 million after-tax charge ($0.84 per share) when it announces financial results for the fourth quarter of 2015.

“Global air passenger traffic growth and airplane demand remain strong, but the air cargo market recovery that began in late 2013 has stalled in recent months and slowed demand for the 747-8 Freighter,” said Ray Conner, Boeing vice chairman and president and CEO of Boeing Commercial Airplanes. “While we remain confident in the 747-8’s unique value-proposition and an upcoming replacement cycle for late-model 747-400 Freighters, we’re taking the prudent step to further align production with current market requirements.”

In September 2016, the 747-8 program’s production will decline from one airplane per month to 0.5 per month. The company previously announced that the rate would drop from 1.3 per month to one per month in March 2016.

On a pre-tax basis at the segment level, Boeing Commercial Airplanes will report a charge of $885 million. The earnings charge will not affect the company’s 2015 revenue or cash flow. Boeing will announce its fourth quarter financial results and provide guidance for 2016 on Jan. 27.

“We are closely monitoring the air cargo market as we work to win additional orders to support

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ongoing future production. At the same time, we continue to aggressively drive productivity to lower costs across our production system to offset the current market challenges," said Greg Smith, executive vice president of Business Development & Strategy and chief financial officer.

The most recent air transport industry data show that air freight contracted in November, with volumes declining by 1.2 percent compared to the same time a year ago. This contrasts with global passenger demand which grew at 5.9 percent, above the 10-year average rate, according to the International Air Transport Association (IATA).

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