

Dreamliner to be delivered late, Boeing confirms

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P-I AEROSPACE REPORTER

The Boeing Company finally acknowledged Wednesday what many in the industry had been expecting for some time — the 787 Dreamliner will be late to customers.

The first flight of the 787 won't happen until around the end of March, and the first planes won't be delivered until late November or December of 2008 rather than the end of May.

That's six months late.

Some industry analysts believe there could be more bad news from Boeing in the months ahead, although they said the challenges Boeing faces with the 787 are nothing like the production issues that delayed delivery of the Airbus A380 for two years and cost the European airplane maker billions of dollars.

Boeing will have to pay late penalties to customers, but the delivery delays will not have a material impact on earnings, Boeing said, and the company is not changing its financial forecast for this year and next.

Heads rolled at Airbus over the A380 delays. None have at Boeing — so far.

"I was not surprised," analyst Scott Hamilton of Leeham Co. LLC said of the delay.

"But Boeing is trying to reassure us that everything will be fine. There are a lot of potential hazards out there that could derail the program further. It's the unknown unknowns."



Of particular risk, he and other analysts said, is that Boeing is sticking to the same 787 production schedule despite the delay.

In a conference call with media and analysts, Boeing Chairman and Chief Executive Jim McNerney said 109 Dreamliners will be assembled for customers by the end of 2009. That's only three fewer than the original plan called for.

To meet that target, Boeing must have finished production of about 40 planes by the time the 787 is certified to carry passengers, shortly before the first delivery in late 2008.

"We are not taking an unwarranted financial risk," McNerney said when pressed by analysts about the production schedule.

Boeing Commercial Airplanes President and CEO Scott Carson, who joined McNerney on the conference call, said the 787 production system will work as advertised.

"We think the issues we are seeing are tied to rework issues on the first airplane, not to fundamental issues in the production system," he said, noting that some of Boeing's partners are

MILESTONES FOR BOEING'S DREAMLINER

Dec. 2003: The Boeing Company's board backs development of 7E7.
April 2004: All Nippon Airways of Japan places launch order for 50 7E7 Dreamliners. Biggest single launch order for Boeing.
Dec. 2004: Plane name changed to 787, in keeping with its 7-series jets.
July 8, 2007: Boeing hosts worldwide rollout ceremony of first Dreamliner at Everett plant.
July 25: Boeing announces that first flight of the 787 has slipped from late August to the end of September.
Sept 5: Boeing announces that first flight has again slipped, to mid-November to mid-December, but plane will be delivered on time in May 2008.
Wednesday: Boeing announces delivery of the first Dreamliner to All Nippon Airways will be delayed until late November or December 2008.
First flight is pushed back to the end of the first quarter of 2008.

already producing structural sections for plane No. 10.

He also said the delay means Boeing can add a month back into its 787 flight test program.

Boeing had originally planned a flight test program of about nine months using six planes. But that was based on the first flight coming in late August or early September. Boeing announced early last month that first flight would be delayed until mid-November to mid-December, which would have left as little as five months to complete the flight tests in time to deliver the first 787s next May.

Carson also said the six-month delay gives Boeing more time to do lab testing of critical 787 flight control software that is late.

Richard Aboulafia of the Teal Group, an industry consulting firm, said Boeing "did what was needed" in delaying deliveries. But its 109-plane production target "is scary," Aboulafia said.

"The bad news is that Boeing provided no margin on the production side, and there is just as much, if not more, risk over there," he said.

Boeing's stock dropped \$2.77 a share, or 2.7 percent, to close at \$98.68.

Around 15 of the 50 customers who have ordered more than 700 Dreamliners won't get their planes on time, including launch customer All Nippon Airways of Japan, Northwest and several Chinese carriers that planned to use their planes to carry passengers to the Olympic Games, which open in Beijing in August.

At least 40 planes will be late.

Boeing apologized for disappointing its customers — a significant embarrassment after the company had insisted as late as last weekend that it still believed it could meet its delivery dates despite a series of delays that have rocked the 787 program in recent months.

The latest delay that forced postponement of deliveries, according to Boeing, is mostly the result of too much out-of-sequence work that remains on the first 787 that was unveiled to the world at the Everett plant on July 8.

McNerney said it became clear this week, after a thorough 787 program review in Seattle, that the pace of progress in getting that first plane finished was insufficient to make the May delivery date.

"The issue that is driving today's decision is the travel work and parts availability of airplane No. 1," Carson said. "It has simply proved to be more difficult than we anticipated to complete the structural work on the airplane out of sequence in our Everett factory."

Boeing would not identify the customers whose planes will be late. All Nippon was supposed to get the first delivered in May.

"We regret that delivery of the 787 will be delayed and we hope to keep the impact of the delay to a minimum," said Rob Henderson, an

ANA spokesman in Tokyo, in an e-mail to the Seattle P-I. "Going forward, we will work closely with Boeing on preparations for the actual delivery," he said.

Northwest, the first U.S. customer for the 787, was supposed to take delivery of its first planes in August 2008 and put them into service a few months later.

"We are disappointed in Boeing's delay, but we can adapt," said Roman Blahoski, a Northwest spokesman.

"It will be very important that Boeing meet its new deadline and we expect them to do so."

He added that Boeing has "committed to giving us an updated delivery schedule in the next few weeks."

Qantas Chief Executive Geoff Dixon said Boeing had assured the airline that the 15 Dreamliners scheduled for delivery between August 2008 and December 2009 would all be delivered by the 2009 date.

"Boeing said the August 2008 aircraft would slip, but not by six months," Dixon said. "Once that aircraft arrives, the remaining 14 aircraft deliveries will be staggered until December 2009."

Qantas has 65 firm orders for the 787, plus 20 options and 30 purchase rights.

"Compensation issues will be the subject of commercial negotiations between Qantas and Boeing," Dixon said.

The largest single customer for the 787 is International Lease Finance Corp.

John Plueger, chief operating officer of the world's largest aircraft leasing company, said the delivery delay was not a surprise.

"We've communicated to Boeing that we'd rather see it late but have it right," he told Bloomberg News.

Boeing's last all-new jet, the 777, was delivered on time — to the day — as promised to United Airlines in 1995.

But for the 787, Boeing has dramatically changed its production system, giving most of the manufacturing work to key partners in Japan, Italy and in the United States. They are responsible for the large one-piece composite wings and fuselage barrels of the 787. Boeing does final assembly of those sections at its Everett plant.

Boeing had expected a lot of so-called "travel" work on the first few planes — work that will eventually be done by partners, such as system installation. But Boeing workers in Everett were left with much more work on the first plane than anticipated.

Carson said most of the structural work on the first plane has been completed and it came off its jacks on Sunday and is now on its wheels.

Work on both the first and second plane, which will be used for static ground testing, was stalled by a shortage of some parts, such as clips, brackets and fasteners, Carson said. The situation has improved, he said.

Carson said the 787 production system should be "100 percent back to plan" by the time the 28th Dreamliner is assembled.

But unlike with the first plane, there should be no more surprises, he said.

He and McNerney said they would not change Boeing's fundamental 787 strategy of sharing more work with partners.

"This (the delay) is more a starting up of a completely new production system for us," McNerney said. "We are not doing as well as we want to. ... But I'm convinced as we work our way through it we will be glad when we get to the other side."

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ADDITIONAL NEWS FROM BOEING

China Now Largest Foreign Parts Supplier for Boeing

Boeing says China Has Stake "In All Current Boeing Models"

With \$2.5 billion in active contracts for aircraft products, China is now officially Boeing's largest foreign parts supplier.

China is an "exciting proposition", offering greater opportunity for original equipment manufacturing (OEM) rather than "just selling airplanes," said Boeing China operations vice president John Burns Thursday at the Asian Aerospace International Expo and Congress, according to Xinhua News Agency.

"Liberalization is creating a more competitive environment and airline strategies are assisting with this growth by responding to the customer's desire to save time by flying point to- point," he said.

"China now has a role in all current Boeing models."

Boeing currently has 170 direct Boeing employees in China and some 3,000 workers in Boeing joint ventures, according to Burns.

He said the country will require more than 2,900 aircraft to support industry growth.

FMI: www.boeing.com