

Boeing sticks to production plans, battery for 787

JOSHUA FREED - AP Business Writer - Associated Press

Boeing is sticking with plans to speed up production of its 787 and sees no reason to change the lithium-ion battery design at the center of the troubled plane's problems, its CEO said Wednesday.

Boeing's full-speed-ahead approach comes even as it became clear that airlines were replacing 787 batteries more often than Boeing had expected. A fire and emergency landing earlier this month, both involving the batteries, prompted regulators to ground Boeing's newest and highest-profile plane.

Airlines have been replacing 787 batteries at a rate that's "slightly higher" than Boeing had expected, CEO Jim McNerney said on Wednesday. None of the replacements have been for safety concerns, he said, and noted that replacing batteries in planes is not uncommon.

U.S. aviation officials said they have asked Boeing for a full operating history of the batteries on the 787s.

Boeing is still building 787s even though it has halted deliveries to customers. It still aims to deliver at least 60 of the planes in 2013, and it's on track to speed up production from five per month now to 10 per month by year end, McNerney said.

All big planes — and especially the 787 — are assembled from parts from suppliers all over the world, into large sections at various facilities in the U.S., and finally by Boeing into a finished airplane. Speeding up or slowing down that process is complicated and takes months or years of advance warning to suppliers.

Asked what the 787 suppliers are being told, McNerney said, "No instructions to slow down, business as usual, and let's keep building airplanes and then let's ramp up as we'd planned."

Boeing said it expects to deliver 635 to 645 commercial jets this year, up from 601 last year. The 46 787s that Boeing shipped to customers in 2012 helped it deliver more planes than European rival Airbus for the first time since 2003. Airbus expects to deliver more than 600 planes this year.

Boeing said it earned \$3.9 billion, or \$5.11 per share, last year, a 3 percent decline from 2011. But revenue rose 19 percent to \$81.7 billion. It predicted 2013 earnings of \$5 to \$5.20 per share, with revenue of \$82 billion to \$85 billion. The outlook assumes "no significant financial impact" from the 787 being out of service.

Last year's deliveries of the 787 as well as its revamped 747-8 brought in cash — the 787 lists for more than \$200 million each — but they actually hurt profits because the planes cost more to build than what Boeing collects. Profit margins for

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Published on Research & Development (<http://www.rdmag.com>)

commercial planes shrank slightly, even as the division's revenue rose 36 percent to \$49.13 billion, and profits rose 35 percent to \$4.11 billion.

Boeing is also dealing with declining profits in its defense and space business. Defense profits fell 3 percent to \$3.07 billion in 2012, including a 13 percent drop in the fourth quarter. Defense revenue rose 2 percent to \$32.61 billion but profit margins declined.

Investigators are still trying to find out what caused the two battery incidents that grounded the 787. But McNerney said the company has learned nothing that makes him think they made a mistake in picking lithium-ion batteries. The 787 was the first plane to use the batteries so extensively. Boeing liked them because they charge quickly and hold more power than other batteries of the same weight.

The company declined to say how many of the batteries have been replaced. But Japan's All Nippon Airways said it had replaced batteries some 10 times because they didn't keep a charge properly or connections with electrical systems failed. Japan Airlines also said it had replaced some 787 batteries.

Shares of Chicago-based Boeing rose 88 cents to \$74.53 in afternoon trading.

Source URL (retrieved on 12/19/2014 - 2:19am):

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