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**AIA SUPPLIER MANAGEMENT COUNCIL
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Thank you. It's great to be here during this extraordinary time for the aerospace industry, an industry that's become a catalyst for world trade, economic growth, international investment, tourism and the unprecedented pace of globalization that we're seeing today.

Let me give you a sense of how we're doing in aerospace and you only have to go as far as AIA's website to appreciate the pace of growth we're experiencing. We saw the surging civil aircraft market boost the aerospace industry in 2006, with total sales increasing to \$184 billion and a record level for the third year in a row. Business travel has grown as companies become increasingly international in terms of customers, investments, and supply chains.

Newspapers and aerospace trade journals are awash with headlines foretelling the continued growth of our industry and predictions for air traffic to double -- or triple -- by 2020. We're seeing the airline industry reinvent itself through new business models and restructuring, making everything from airline operations to maintenance and repair more efficient.

We're witnessing new technologies that are making aircraft lighter, more fuel efficient, quieter, and increasingly friendly to the environment. Earlier this month, I attended the premiere of the revolutionary Boeing 787 Dreamliner, boasting all of those advantages -- among others -- and making it the fastest selling new commercial airplane ever built. Boeing is at roughly 700 orders for the 787 and climbing, selling out delivery positions through 2015. And just last month at the Paris Air Show, Airbus more than doubled the previous record for orders at the show, set in 2005.

In the government market, I believe we'll continue to see a strong military budget although perhaps not growing at the same rate. The DoD long-range budget forecast this year projects an increase from \$432 billion in FY07 to \$536 billion in FY12, without supplementals or a CAGR of 4.4 percent.

Of course, those projections are subject to change but despite the uncertainty of a 2008 Presidential election we still live in a dangerous and unpredictable world. While there seems to be increasing pressure in Congress and from the American people to bring our troops home from Iraq, I don't believe we'll see a situation that would call for any significant reduction in the defense budget as long as the security of the American people remains a crucial concern.

Recently we've seen saber-rattling from Iran and North Korea , and in addition to Iraq and Afghanistan we're squarely in the middle of the global war on terror. These conflicts have resulted not only in budget growth but also progress in eliminating "stovepipes" and establishing cross-service cooperation. This is evident in new programs such as the Joint Strike Fighter and the Joint Tactical Radio System.

The new era of network-centric warfare will enable our military to integrate joint operations more effectively than ever before in history, enabling commanders to make decisions faster, to target attacks with greater precision, and to accomplish missions more successfully.

So almost everywhere within the aerospace and defense industry -- from commercial markets to the military -- things look relatively good. But if you're like me, you probably resist sitting back and relaxing during good times like these and instead you might feel this is the appropriate time to at least consider events that could limit the growth of our industry. A bit of paranoia can be a good thing. And if you're trying to manage those potential risk factors, you might have even grouped your concerns and apprehension into three buckets.

In the first bucket are those things our industry can't really influence, but we must be prepared to respond to. Second are those things we can hopefully influence, but it's going to take a lot of help to get us where we want to go. And in the third bucket is something over which we have absolute and total control.

Let me begin with those things our industry can't really influence. In this category are challenges like a world-wide recession or a pandemic or a major terrorist attack. All of which would have far-reaching implications across our industry and would require us to react to events that most certainly would curtail growth. Clearly, the implications and reactions to these kinds of events vary widely. We suffered through a world-wide recession during the first half of the 1990s and we saw how closely airline profitability is tied to economic growth. We also saw the end of the cold war, an overall decline in global demand for military systems, and reductions throughout the U.S. armed forces.

But if there was a benefit from all this adversity it was that aerospace and defense companies learned to be more agile and flexible. In fact, in the middle of that world-wide recession, Jim Womack's book, "The Machine That Changed the World" offered an approach called "Lean Manufacturing" following a study of Japanese, American, and European automotive assembly plants. And while Lean Manufacturing was born in the automotive industry, it caught the imaginations of people in a variety of other industries including aerospace and defense.

Of course, today Lean implementations are common throughout our companies, and Lean principles are being applied to an array of processes to eliminate waste, improve quality, enhance productivity, provide better value for customers, and improve financial performance.

That same adversity in the mid-1990s also brought a new wave of consolidation and diversification to the aerospace industry as a strategy to promote growth and to help shelter against recession or dependence on a particular market. We saw dramatic evidence of this in the mid-1990s when Northrop bought Grumman and GE sold its aerospace division to Martin Marietta, which then sold it to Lockheed. But perhaps most notable was Boeing's acquisition of most of Rockwell International's aerospace and defense units in 1996, McDonnell Douglas in 1997, and the space and communication business of Hughes Electronics in 2000 among others. These acquisitions established Boeing as a diversified aerospace company and reduced its dependence on the volatile commercial aircraft market.

And so, while our industry can't influence another world-wide recession or a pandemic or a major terrorist attack, we can be prepared by becoming more efficient and diversified.

Now let's move on to the second bucket -- those things we can hopefully influence but it will take a lot of help to get us where we want to go. In this category are challenges like modernizing the air traffic control system, U. S. competitiveness and export controls.

Clearly, we haven't moved out very fast on the Next Generation Air Transportation System and we need to continue to influence our government leaders and help where we can. Today, more people are flying, more airplanes are being built, and if there's one area where we have consensus across our industry it's that the current system is not able to meet the capacity requirements of the future.

All of us know that this potential restraint will negatively impact our industry and slow commerce and a growing world economy. We can begin to influence this issue, but it's going to require a national effort and, in some cases, an international effort as well as government/industry cooperation.

In addition to the need to modernize the air traffic control system, the impact of globalization is eroding the economic and strategic leadership that the United States has enjoyed since World War II. In fact, I believe our nation is at a crossroads. Science, technology, engineering, and mathematics are converging to become the driving force in the global marketplace. And yet we've all seen the disturbing statistics, perhaps most notably from the "Rising Above the Gathering Storm" report issued under the guidance of the National Academies Committee on Science, Engineering and Public Policy.

Here's a selection of troubling items from that report:

- Fewer than one-third of U.S. 4th grade and 8th grade students performed at or above a level called "proficient" in mathematics.
- There were almost twice as many U.S. physics bachelor's degrees awarded in 1956 than in 2004.
- And the United States today is a net importer of high technology products.

And so, once again, while governmental entities have a role and responsibility in reversing these trends, business and the private sector must participate -- and in some cases lead -- through involvement in our communities and business/education partnerships in science, technology, engineering, and mathematics.

Finally, a third example of things we can hopefully influence is export controls. Industry has been working for a number of years to improve the export control system on advanced technology and defense-related exports so that it is more efficient, predictable, and transparent.

The current system puts U. S. companies and their foreign customers at a significant disadvantage when they have to contend with a U. S. export control system that's cumbersome and unpredictable. Improvements are essential for U.S. industry to stay competitive in today's global economy. AIA and other organizations such as the National Association of Manufacturers and the U. S. Chamber of Commerce recently formed the Coalition for Security and Competitiveness to modernize the U. S. export control system and have presented some specific recommendations to the President. We believe these recommendations can be implemented quickly and administratively and won't require new legislation which, as you know, can take a very long time to pass.

I believe we can report some progress here, though there is more work to be done. Earlier this month, AIA President John Douglass met with the White House and they have agreed to accept many of the recommendations put forth by the Coalition, but we have not been given the go-ahead to make that public. Hopefully we will soon be able to report major success as a result of industry efforts. So those are three opportunities where our industry can have considerable influence, and I'd be glad to discuss these areas further during the Q & A session.

Now let me move on to that third bucket, something over which we have absolute and total control and is in fact a top AIA issue for 2007: to Advance Ethical Business Practices Worldwide. Clearly, we operate in an industry that requires extraordinary trust. In the military, our war fighters' lives depend on the reliability of our products and services every day. Likewise, the lives of people onboard every commercial and business aircraft around the world depend on equipment designed and manufactured by our companies. You might say that trust is the "wind beneath the wings" of the aerospace and defense industry. Now, what happens when trust is lost?

Well, we only have to go back as far as the dawn of this millennium for what has become a textbook example of failed ethics in business and an entire succession of high-profile ethics violations. The collapse of Enron and the collateral damage to Enron's accounting firm Arthur Andersen generated repercussions from the Securities and Exchange Commission, to the Justice Department, to individual investors, to Enron employees whose retirement savings in the company's 401(k) plan were erased. The corporate scandal wiped out thousands of jobs, more than \$60 billion in market value, and more than \$2 billion in pension plans. Enron was bankrupt by the end of 2001. Former company executives were sentenced to prison in trials that generated headlines across the globe.

On the heels of Enron came WorldCom, the U.S. long-distance carrier that collapsed under the pressure of a major accounting scandal and filed for bankruptcy in July 2002. Then there was Tyco, whose former CEO was convicted for misappropriation of corporate funds among other charges. Another high-profile example was ImClone, whose CEO was accused of selling his stock before the FDA announced it had denied approval for its cancer drug and was sentenced to prison for insider trading. His friend Martha Stewart, who also sold ImClone stock prior to the announcement, was also convicted and served time in prison.

And, of course, we've also seen confidence destroyed through the acts of a few people inside our own industry. Last year, Boeing reached an agreement to pay \$615 million to end three years of federal investigations for illicitly obtaining proprietary documents from a competitor in an effort to win government contracts and the illegal hiring of a former Air Force officer.

So, during our first steps into this new millennium, we've seen an array of ethics violations which have damaged corporate reputations and resulted in lost contracts, fines, bankruptcies, ruined careers, and prison time. Not a very attractive list.

And the lesson we can learn from these examples is this: when only one or a few individuals breach trust and confidence, the whole company -- regardless of size -- and often a whole industry suffers for it. And it requires momentous work and time and resources to regain that trust.

That's why advancing ethical business practices worldwide is a top issue for the AIA and should be for each of us. If you haven't already done so, here are some actions I encourage you to consider:

First, develop a written code of ethics that fits your business. There are sources that can help you do this and AIA offers a template on the AIA SMC web site. That's the easy part.

Second, choose someone in your company who is respected and has authority to oversee the development, implementation, and enforcement of the code.

Third, make sure all the people in your company know the code and revisit it on a regularly scheduled basis.

If you're a DoD supplier, consider belonging to the Defense Industry Initiative on Business Ethics and Conduct. As a consortium of defense contractors that have established and ascribe to a code of ethical business principles in their operations, the DII offers many resources that can help you establish a strong ethics program within your organization.

The DII was established in 1986 by 32 major defense contractors who pledged to adopt and implement those principles after a breach of trust by another defense contractor,

which had the unfortunate distinction of being in the headlines for wrongdoing over a number of years. Rockwell International, our parent company before our spin-off in 2001, was one of the 32 original signatory companies in DII and I currently serve on the DII Steering Committee. And my colleagues on the AIA Board of Governors feel as I do because they're also signatories on DII. For more information, I encourage you to explore the DII web site at www.dii.org.

Fourth, if you do have someone in your organization who violates the code, take action immediately, be honest and upfront with your customers, and cooperate fully with authorities.

Finally, and most importantly, set the right tone. Make sure the leadership of your company operates within the highest standards of conduct and hold each other accountable. The examples set through every day actions and decisions are the most reflective of the ethical culture you create. All of this, the development, implementation, and enforcement of your code -- along with the example set by leadership -- is your insurance policy in limiting fallout from the violation.

At the end of the day ... business ethics has to be driven from the top, set by the top executive -- whether CEO or President -- who lives the example. Creating an ethical culture is not just monitoring compliance with laws and policies, but also perceptions that are created through actions. Because it's not just the words you say, it's the choices you make. It's creating an open environment in which people know and understand laws regulations and your ethical expectations. It's communication and training, providing explanations of where your company stands and having systems in place to support your employees. It's creating an environment in which people can bring forward issues without fear of retaliation. It's strong, swift, and significant action against people who violate the code. And, ultimately, it's building trust.

Tomorrow or next week or next month or next year, you will pick up a newspaper or magazine and you'll read about the next corporate scandal. It may be a story about someone wanting to win a contract at any cost. Or it may be a story about an employee who ignored the misconduct of a fellow worker because they feared retaliation. Or it may be a story about someone in your company who started with the best intentions but ultimately made a serious ethical mistake.

And even though we all hope to never face such an incident, the best way to prepare is to be proactive, to establish an unwavering commitment to creating an ethical environment and establishing the internal practices to communicate and monitor this environment. But ultimately, the best reason to establish a strong ethical environment in your organization is because it is the right thing to do for your employees, for your shareowners, and for your customers. Thank you.