

Notes to Consolidated Financial Statements

into a USAF tanker contract is becoming less likely. We are continuing to pursue market opportunities for additional 767 sales. Despite the recent orders and the possibility of additional orders, it is still reasonably possible a decision to complete production could be made in 2006. A forward loss is not expected as a result of such a decision but program margins would be reduced.

We have entered into standby letters of credit agreements and surety bonds with financial institutions primarily relating to the guarantee of future performance on certain contracts.

Contingent liabilities on outstanding letters of credit agreements and surety bonds aggregated approximately \$3,957 as of December 31, 2005 and approximately \$3,183 at December 31, 2004.

Note 25 - Segment Information

We operate in six principal segments: Commercial Airplanes; A&WS, Network Systems, Support Systems, and L&OS, collectively IDS; and BCC. All other activities fall within the Other segment, principally made up of Boeing Technology, Connexion by BoeingSM and our Shared Services Group. Our primary profitability measurements to review a segment's operating results are earnings from operations and operating margins.

Our Commercial Airplanes operation principally involves development, production and marketing of commercial jet aircraft and providing related support services, principally to the commercial airline industry worldwide.

IDS operations principally involve research, development, production, modification and support of the following products and related systems: military aircraft, both land-based and aircraft-carrier-based, including fighter, transport and attack aircraft with wide mission capability, and vertical/short takeoff and landing capability; helicopters and missiles, space systems, missile defense systems, satellites and satellite launching vehicles, and information and battle management systems. Although some IDS products are contracted in the commercial environment, the primary customer is the U.S. Government.

BCC is primarily engaged in supporting our major operating units by providing selective financing solutions to our customers and managing overall portfolio risk exposures.

Boeing Technology is an advanced research and development organization focused on innovative technologies, improved processes and the creation of new products. Financing activities other than BCC, consisting principally of four C-17 transport aircraft under lease to the UKRAF, are included within the Other segment classification.

While our principal operations are in the United States, Canada, and Australia, some key suppliers and subcontractors are located in Europe and Japan. Sales and other operating revenue by geographic area consisted of the following:

Year ended December 31,	2005	2004	2003
Asia, other than China	\$ 5,576	\$ 6,091	\$ 6,885
China	3,324	1,769	745
Europe	3,622	4,506	3,826
Oceania	1,362	1,032	1,944
Africa	1,011	625	670
Canada	833	644	639
Latin America, Caribbean and other	669	738	607
	16,397	15,405	15,316
United States	38,448	37,052	34,940
Total sales	\$54,845	\$52,457	\$50,256

Commercial Airplanes segment sales were approximately 78%, 77% and 80% of total sales in Europe and approximately 77%, 90% and 90% of total sales in Asia, excluding China, for 2005, 2004 and 2003, respectively. IDS sales were approximately 18%, 20% and 16% of total sales in Europe and approximately 22%, 8% and 8% of total sales in Asia, excluding China, for 2005, 2004 and 2003 respectively. Exclusive of these amounts, IDS sales were principally to the U.S. Government and represented 51%, 56% and 50% of consolidated sales for 2005, 2004 and 2003, respectively. Approximately 6% of operating assets are located outside the United States.

The information in the following tables is derived directly from the segments' internal financial reporting used for corporate management purposes.

Revenues

Year ended December 31,	2005	2004	2003
Commercial Airplanes	\$22,651	\$21,037	\$22,408
Integrated Defense Systems:			
Aircraft and Weapon Systems	11,444	11,394	10,763
Network Systems	11,264	11,221	9,198
Support Systems	5,342	4,881	4,408
Launch and Orbital Systems	2,741	2,969	2,992
Total Integrated Defense Systems	30,791	30,465	27,361
Boeing Capital Corporation	966	959	991
Other	972	549	871
Accounting differences/eliminations	(535)	(553)	(1,375)
Total revenues	\$54,845	\$52,457	\$50,256

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Net earnings

Year ended December 31,	2005	2004	2003
Commercial Airplanes	\$1,432	\$ 753	\$ 707
Integrated Defense Systems:			
Aircraft and Weapon Systems	1,707	1,636	1,420
Network Systems	638	969	645
Support Systems	765	662	455
Launch and Orbital Systems	780	(342)	(1,754)
Total Integrated Defense Systems	3,890	2,925	766
Boeing Capital Corporation	232	183	91
Other	(334)	(535)	(379)
Accounting differences/eliminations	(989)	(403)	(11)
Share-based plans expense	(852)	(576)	(456)
Unallocated expense	(567)	(340)	(320)
Earnings from continuing operations	2,812	2,007	398
Other income, net	301	288	460
Interest and debt expense	(294)	(335)	(358)
Earnings before income taxes	2,819	1,960	500
Income tax (expense)/benefit	(257)	(140)	185
Net earnings from continuing operations	\$2,562	\$1,820	\$ 685
Income from discontinued operations, net of taxes		10	33
Net (loss)/gain on disposal of discontinued operations, net of taxes	(7)	42	
Cumulative effect of accounting change, net of taxes	17		
Net earnings	\$2,572	\$1,872	\$ 718

Depreciation and amortization

Year ended December 31,	2005	2004	2003
Commercial Airplanes	\$ 396	\$ 460	\$ 455
Integrated Defense Systems:			
Aircraft and Weapon Systems	136	118	114
Network Systems	106	97	94
Support Systems	25	16	15
Launch and Orbital Systems	201	214	207
Total Integrated Defense Systems	468	445	430
Boeing Capital Corporation	257	226	217
Other	40	51	49
Unallocated	365	342	267
	\$1,526	\$1,524	\$1,418

Research and development expense

Year ended December 31,	2005	2004	2003
Commercial Airplanes	\$1,302	\$ 941	\$ 676
Integrated Defense Systems:			
Aircraft and Weapon Systems	374	382	360
Network Systems	285	234	195
Support Systems	80	57	59
Launch and Orbital Systems	116	161	232
Total Integrated Defense Systems	855	834	846
Other	48	104	129
Total research and development expense	\$2,205	\$1,879	\$1,651

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 IDS segment for further modification prior to delivery to the customer. The revenues and cost of sales for these transfers are eliminated in the Accounting differences/eliminations caption. In the event an airplane accounted for as an operating lease is subsequently sold, the 'Accounting differences/eliminations' caption would reflect the recognition of revenue and cost of sales on the consolidated financial statements.

For segment reporting purposes, we record IDS revenues and cost of sales for only the modification performed on airplanes received from Commercial Airplanes when the airplane is delivered to the customer or at the attainment of performance milestones. The 'Accounting differences/eliminations' caption would reflect the recognition of revenues and cost of sales for the pre-modified airplane upon delivery to the customer or at the attainment of performance milestones.

The Accounting differences/eliminations caption of net earnings includes the impact of cost measurement differences between GAAP and federal cost accounting standards. The table below summarizes the Accounting differences/eliminations line in net earnings.

Accounting differences/eliminations

Year ended December 31,	2005	2004	2003
Pension	\$(846)	\$ 27	\$ 463
Post-retirement	(5)	(285)	(257)
Capitalized interest	(47)	(48)	(53)
Pre-modification aircraft elimination	(10)	15	(128)
Other	(81)	(112)	(36)
Total	\$(989)	\$(403)	\$(11)

Unallocated expense includes the recognition of an expense or a reduction to expense for deferred stock compensation plans resulting from stock price changes as described in Note 16. The cost attributable to share-based plans expense is not allocated to other business segments except for the portion related to BCC. Unallocated expense also includes corporate costs not allocated to the operating segments. Unallocated depreciation and amortization relates primarily to our Shared Services Group.

Unallocated assets primarily consist of cash and investments, prepaid pension expense, net deferred tax assets, capitalized interest and assets held by our Shared Services Group as well as intercompany eliminations. Unallocated liabilities include various accrued employee compensation and benefit liabilities, including accrued retiree health care, net deferred tax liabilities and income taxes payable. Debentures and notes payable are not allocated to other business segments except for the portion related to BCC. Unallocated capital expenditures relate primarily to Shared Services Group assets and segment assets managed by Shared Services Group, primarily IDS.

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During 2005, all of our IDS segments classified performance based payments and progress payments in excess of inventoriable costs in Advances and billings in excess of related costs on our Consolidated Statements of Financial Position and reclassified prior years to conform with our current presentation. Assets and liabilities shown below are based on our current presentation of including performance based payments and progress payments in excess of inventoriable costs as liabilities (See Note 14).

Segment assets, liabilities, capital expenditures and backlog are summarized in the tables below.

Assets

Year ended December 31,	2005	2004	2003
Commercial Airplanes	\$ 7,209	\$ 7,365	\$ 8,760
Integrated Defense Systems:			
Aircraft and Weapon Systems	3,848	2,955	3,033
Network Systems	4,000	4,078	3,859
Support Systems	1,988	1,665	1,241
Launch and Orbital Systems	5,643	5,459	5,080
Total Integrated Defense Systems	15,479	14,157	13,213
Boeing Capital Corporation	9,216	9,678	12,120
Other	6,671	7,343	3,580
Unallocated	21,483	17,681	17,498
	\$60,058	\$56,224	\$55,171

Liabilities

Year ended December 31,	2005	2004	2003
Commercial Airplanes	\$10,980	\$ 6,933	\$ 5,536
Integrated Defense Systems:			
Aircraft and Weapon Systems	3,599	3,144	3,296
Network Systems	1,213	1,260	1,282
Support Systems	1,013	851	776
Launch and Orbital Systems	2,098	2,389	2,208
Total Integrated Defense Systems	7,923	7,644	7,562
Boeing Capital Corporation	6,859	7,509	9,595
Other	53	804	817
Unallocated	23,184	22,048	23,522
	\$48,999	\$44,938	\$47,032

Capital expenditures

Year ended December 31,	2005	2004	2003
Commercial Airplanes	\$ 622	\$ 374	\$185
Integrated Defense Systems:			
Aircraft and Weapon Systems	204	172	177
Network Systems	117	104	107
Support Systems	30	35	33
Launch and Orbital Systems	90	126	158
Total Integrated Defense Systems	441	437	475
Boeing Capital Corporation			
Other	65	68	16
Unallocated	419	367	160
	\$1,547	\$1,246	\$836

Contractual backlog (unaudited)

Year ended December 31,	2005	2004	2003
Commercial Airplanes	\$124,132	\$ 70,449	\$ 63,929
Integrated Defense Systems:			
Aircraft and Weapon Systems	19,161	18,256	19,352
Network Systems	6,228	10,190	11,715
Support Systems	8,366	6,505	5,882
Launch and Orbital Systems	2,586	4,200	3,934
Total Integrated Defense Systems	36,341	39,151	40,883
	\$160,473	\$109,600	\$104,812

Commercial Airplanes backlog at December 31, 2005 has been reduced by \$7.8 billion to reflect the planned change in accounting for concessions effective January 1, 2006. Had December 31, 2004 reflected this method of accounting, Commercial Airplanes contractual backlog would have been reduced by \$4.9 billion to \$65.5 billion. See Note 1.