



PEOPLE WORKING TOGETHER AS ONE GLOBAL COMPANY FOR AEROSPACE LEADERSHIP

THE BOEING COMPANY 1997 ANNUAL REPORT



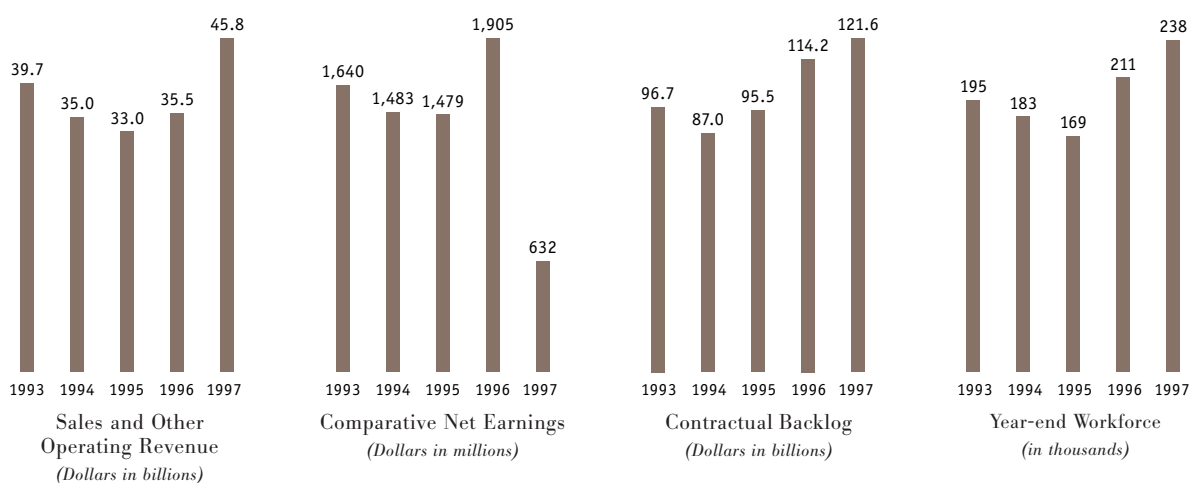
THE BOEING COMPANY, BASED IN SEATTLE, WASHINGTON, IS THE LARGEST AEROSPACE COMPANY IN THE WORLD, AS MEASURED BY TOTAL SALES, AND THE NATION'S LEADING EXPORTER. BOEING IS THE WORLD'S LARGEST MANUFACTURER OF COMMERCIAL JETLINERS AND MILITARY AIRCRAFT, AND THE NATION'S LARGEST NASA CONTRACTOR. THE COMPANY'S CAPABILITIES IN AEROSPACE ALSO INCLUDE HELICOPTERS, ELECTRONIC AND DEFENSE SYSTEMS, MISSILES, ROCKET ENGINES, LAUNCH VEHICLES, AND ADVANCED INFORMATION AND COMMUNICATION SYSTEMS. THE COMPANY HAS AN EXTENSIVE GLOBAL REACH WITH CUSTOMERS IN 145 COUNTRIES AND OPERATIONS IN 27 U.S. STATES. WORLDWIDE, BOEING AND ITS SUBSIDIARIES EMPLOY MORE THAN 238,000 PEOPLE.

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FINANCIAL HIGHLIGHTS

The merger of The Boeing Company and McDonnell Douglas Corporation was effective August 1, 1997. All current and historical information reflects the combined company.

<i>(Dollars in millions except per share data)</i>	1997	1996	1995	1994	1993
Sales and Other Operating Revenues	\$ 45,800	\$ 35,453	\$32,960	\$34,969	\$39,711
Comparative Net Earnings	632 ^(a)	1,905 ^(b)	1,479 ^(c)	1,483	1,640
Comparative Earnings per Share	0.63 ^(a)	1.92 ^(b)	1.49 ^(c)	1.48	1.64
Contractual Backlog	121,640	114,173	95,488	86,956	96,657
Research and Development	1,924	1,633	1,674	2,076	2,077
Capital Expenditures, net	1,391	971	747	883	1,349
Cash and Short-term Investments	5,149	6,352	4,527	3,064	3,194
Customer and Commercial Financing Assets	4,600	3,888	4,212	5,408	5,534
Total Debt	6,854	7,489	5,401	5,247	5,840
Cash Dividends	557	480	434	395	395



(a) Comparative net earnings of \$632 or \$.63 per share are exclusive of the special charge principally associated with Douglas Products (MD-series aircraft) and the ShareValue Trust. Net loss including the special charge and the ShareValue Trust was \$178 or \$.18 per share.

(b) Comparative net earnings of \$1,905 or \$1.92 per share are exclusive of the ShareValue Trust. Net earnings including the ShareValue Trust were \$1,818 or \$1.85 per share.

(c) Comparative net earnings of \$1,479 or \$1.49 per share are exclusive of the special charge associated with Douglas Products (the MD-11 program) and the special early retirement program. Net loss including the special charge and the special early retirement program was \$36 or \$.04 per share.



PHILIP M. CONDIT

HARRY C. STONECIPHER

MESSAGE TO SHAREHOLDERS

Fortune magazine called it “The Sale of the Century.” It is hard for us to contain our enthusiasm regarding the power and potential of the “new” Boeing, which came into being with the completion of our merger with McDonnell Douglas on August 1, 1997.

One could liken the new Boeing to the first freshly painted 747 jumbo jet. We have created the world’s largest aerospace company. Now we must prove that this giant new bird will fly farther, faster, higher – and more efficiently – than anything else in the aerospace world. And we will.

Today’s Boeing has a full and excellent line of products serving all three principal aerospace markets – commercial, military and space. This gives us unrivaled breadth and balance. And it opens up great opportunities for synergy, or creative interplay, between our businesses.

We made a great start in acting and functioning as one company in the last five months of 1997. By year end, all of the major business units within the Information, Space & Defense Systems Group were performing well, fully integrating people and operations from three different company backgrounds.

Nevertheless, for reasons unrelated either to our merger with McDonnell Douglas or our earlier acquisition of the Rockwell aerospace businesses, our financial results for 1997 were very disappointing.

We recorded a net loss of \$178 million. This was due to \$3 billion plus in pretax charges – more than half of which were due to production problems in our commercial aircraft business. Our shareholders have every right to expect better. So do our airline customers, who have faced the problem of late deliveries of aircraft. Working together as a team – across the board – we are committed to making 1998 a year of improved execution with a resulting turnaround in shareholder value.

Despite our poor financial performance in 1997, the company’s overall financial position remains strong. We have a balance sheet with \$5.1 billion in cash and cash equivalents and a total debt to capitalization ratio of .35-to-1. At year end, our firm backlog was an impressive \$121.6 billion.

PRODUCTION PROBLEMS IN COMMERCIAL AIRCRAFT

We failed to do a good job of managing a rapid ramp-up in production in commercial aircraft, aimed at more than doubling the number of aircraft rolling off our production line over a period of 18 months. We were forced to shut down our 737 and 747 production lines for about a month in order to bring work back into sequence. Out-of-sequence work is an especially costly problem on an aircraft assembly line, as it causes efficiency to plummet to a small fraction of what it should be.

We have made good progress on all fronts in the production recovery plan launched in October. We have made good inroads in reducing shortages, out-of-sequence work and overtime, while forging ahead in meeting new production schedules.

Most definitely, we are working to solve our problems on the production front; and we are doing it the *right* way. To critics who have suggested that we have attempted to change too many things too fast in the emphasis given to teamwork, superior asset management, and lean design and manufacturing, we say, "Absolutely not." Our recent difficulties have only redoubled our resolve to push for faster and more sweeping change in the way we design and produce our products.

WHAT'S NEW ABOUT THE "NEW" BOEING

Today's Boeing is a company that specializes in the design, development, production and support of almost everything that flies – from jetliners and jet fighters through military transports, helicopters, business jets, missiles, rockets and space-faring vehicles.

What's most different from the past is the balance between our aerospace products. Prior to our merger with McDonnell Douglas, there was a 3-to-1 ratio between commercial jetliners and all of our other products in revenue generation. Now, for 1997, it was a 3-to-2 ratio.

More balance equates with greater stability and agility. We have the confidence of knowing that when one market is down, another is likely to be up. We have more latitude, therefore, in deploying people from one sector to another, according to business cycle changes. Moreover, with the extraordinary array of capabilities and talents that exists inside our company, we are able, and will be able, to respond quickly and decisively to opportunities, whenever and wherever they may exist – across the entire spectrum of aerospace products.

Fast growth is the order of the day in our commercial aircraft business. We are still in the midst of a very strong cycle in this business, fueled by strong growth in airline traffic, record profits for the world's airlines and the need for replacing aging aircraft. Despite our temporary problems on the production front, and despite the current financial problems of several Asian countries, orders for new jetliners have continued to roll in from both the U.S. and abroad.

Whenever the next downturn in the commercial airline ordering cycle does occur, we should be better prepared for it than we have been at any time in the past, as a result of our increased presence in defense and space markets.

The outlook for our military aircraft and missiles business is very promising over the coming decade, given an extremely strong position in current-generation programs. At the same time, the company is involved in final competition or in early development of all the next-generation aircraft and missile programs for the U.S. Army, Navy and Air Force.

Our space businesses provide another dimension for growth and profit. As the largest single NASA contractor, and a major force in the satellite launch business, we are benefiting in multiple ways from the rapid growth in space-based communications.

For all of our breadth and size, we are a company with a singular focus. Our focus is aerospace. We see tremendous opportunities in the future of flight. As a result, we are not interested in diversification.

A WHOLE THAT IS MORE THAN THE SUM OF ITS PARTS

Like many companies, we have a vision statement. It reads: "People Working Together as One Global Company for Aerospace Leadership." While that might not sound especially unusual, every word has particular meaning to us.

People – A company, any company, is nothing more or less than the people who make it up. We must train, develop and lead those people. This is why the new Boeing has launched a series of new programs and initiatives in the area of people policies. During 1997, that included a commitment to provide financial support to employees wishing to pursue high school and college courses, whether or not such courses are related to their current job assignments.

Working – This is about effort – work. We have a task to do. We are here to provide value – to our customers, our shareholders, the communities where we work, and to our fellow workers. At all levels, employees will be measured and evaluated, rewarded or penalized, based on the value they create. As part of this philosophy, in 1998 we implemented a new stock-award executive compensation plan to strengthen management's focus on improving shareholder value.

Together – Every organization has forces that try to divide and reduce the impact of the total. The more we pull together, the more we share knowledge and ideas, the stronger we will be.

One – We have a shared destiny. We will succeed or fail together. Sharing facilities, sharing service, and looking for common solutions to problems are all part of being "One."

Global – If we are to compete effectively in the next century, we will have to be a global company. This is a must in attitude as well as geography. We must go further than we have ever gone before in enlisting the cooperation and participation of people in many countries in the design, development and production of new generations of aerospace products. Our leadership team will increasingly reflect global backgrounds and global experience.

Company – A company is a cohesive, inclusive institution. It is a group joined by a common purpose.

Aerospace – We are an aerospace company. That is our identity. That is our purpose. We are here to produce aerospace products and systems – airplanes, launch vehicles, satellites and defense systems.

Leadership – We are not here to be also-rans. We are here to lead, to be the best, nothing less.

As one company that views the entire aerospace world as its particular mission, we expect to go farther, faster and higher than we have ever been... in serving the interests of our customers, shareholders and employees.

There is no limit to this flight.



PHILIP M. CONDIT
Chairman and Chief Executive Officer



HARRY C. STONECIPHER
President and Chief Operating Officer

February 23, 1998



Sharing a vision.

Working Together



EXPERIMENTAL

Working Together

Leading the world.

The new Boeing 777-300 during flight tests in Southern California



We will be a world-class leader in every aspect of our business – in developing our team leadership skills at every level; in our management performance; in the way we design, build and support our products; and in our financial results.

A photograph of an F/A-18F Super Hornet on the deck of an aircraft carrier. The aircraft is dark grey with a white star insignia on the wing and the text 'F/A-18F' on the fuselage. Two missiles are mounted on the wing. In the foreground, three ground crew members in dark uniforms and helmets are visible, partially obscured by a large plume of white smoke or steam. The sky is blue with scattered white clouds.

Commitments honored.

The F/A-18E/F Super Hornet is the U.S. Navy's newest fighter and attack aircraft



We will always take the high road by practicing the highest ethical standards, and by honoring our commitments. We will take personal responsibility for our actions, and treat everyone fairly and with trust and respect.

A photograph showing the interior of a Boeing 737 fuselage during assembly. The image features several large, curved metal sections of the aircraft's body, which are being joined together. The metal has a light blue-grey color and is perforated with small holes. In the background, there are yellow and red structural elements, possibly part of the assembly line or support equipment. The lighting is bright, highlighting the metallic surfaces and the complex geometry of the fuselage sections.

Quality in product and process.

Boeing 737 fuselage assembly in Wichita, Kansas



We will strive for continuous quality improvement in all that we do, so that we will rank among the world's premier industrial firms in customer, employee and community satisfaction.



Meeting the needs of our cust

We will achieve total customer satisfaction by understanding what the customer wants and delivering it flawlessly. We must also generate superior returns on the assets entrusted to us by our shareholders. We will ensure our success by satisfying our customers and increasing shareholder value.

omers and shareholders.



A large, white, conical turbine component is the central focus of the image. It is set against a dark background of industrial machinery. In the foreground, there are several metal boxes with a diamond-plate texture. The overall scene is dimly lit, with a warm light source visible in the upper left corner.

Our strength is in our people.

Our people are the real source for our competitive advantage. We will continually learn, and share ideas and knowledge. We value the skills, strengths and perspectives of our diverse team. We will foster a participatory workplace that enables people to get involved in making decisions about their work that advance our common business objectives.



Delta II rocket on the launch pad at Vandenberg Air Force Base, California

OPERATIONS REVIEW

COMMERCIAL AIRCRAFT

Our commercial aircraft business struggled with its own prosperity in 1997. In pushing to double production rates to meet the heavy demands of a booming market, we experienced serious cost and schedule problems. Even so, Boeing delivered a total of 374 jetliners in 1997, up from 269 in 1996, an increase of 39 percent. Beyond that, Boeing continued to lead the industry both in market share and in the development of new products.

Net of cancellations, we had orders for 502 new airliners in 1997, with a total value of \$39.1 billion. New orders

finalized in 1997 included major long-term purchase agreements with three big carriers (Delta Airlines, American Airlines and Continental Airlines). At year end, our contractual backlog for commercial aircraft stood at \$93.8 billion.

Boeing Commercial Airplane Group spent \$1,208 million on research and development in 1997, up from \$1,156 million in 1996. That happened as we continued to develop and improve the Boeing family of jetliners, already the most extensive in the world. During 1997,

Commercial Jet Aircraft Deliveries by Model

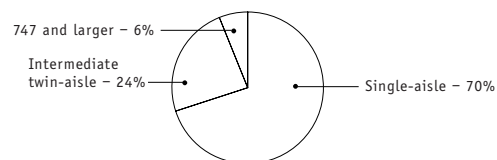
1995 - 1997	1997	1996	1995
737	135	76	89
747	39	26	25
757	46	42	43
767	41	42	36
777	59	32	13
MD-80	16	12	18
MD-90	26	24	14
MD-11	12	15	18
Total	374	269	256

Commercial Aircraft

(Dollars in millions)	1997	1996
Revenues	\$26,929	\$19,916
Operating profit (loss)	\$(1,837)	\$956

Commercial Aircraft

Airplanes Added to World Fleet - 1998-2017



Number of airplanes = 17,600

Boeing launched the 737-900 with Alaska Airlines and the extended-range 767-400 with Delta Airlines; rolled out the 737-600, the 737-800 and the 777-300; and certified and delivered the first 737-700. Development work also continued on the newly named 717-200 (formerly the MD-95), a 100-seat airliner that gives Boeing a powerful entry in the regional jet market. Never before in company history have so many major product development efforts been under way at one time.

COMMITMENT AND VALUE

The range of airplanes now in varying stages of development demonstrates the breadth and depth of the Boeing commitment to meeting the future needs of our customers. Boeing endeavors to offer the airline customer the right airplane for each route – long haul or short, high capacity or low – combined with all the benefits that come from common parts and systems supporting most or all of an entire airline fleet.

Each new aircraft is based on a single, all-important objective: delivering more value to airlines in the form of reliability, flexibility, simplicity and reduced operating and maintenance costs. Different airlines from around the world have been deeply involved in the development and configuration of each airplane now in development or early production at Boeing. We not only listen to the customer, we actively solicit the customer's desires and knowledge at every stage of design and development.

The same view of the business as a close and enduring partnership between supplier and customer extends to other services and activities. Boeing sets the standard for airline customer service around the globe. We have been the clear leader in this area ever since the introduction of the 707, the first successful jetliner. Customer service for Boeing begins before delivery and continues as long as an airplane is in service. At 183 bases around the world, Boeing field-service representatives are almost as ubiquitous as the customers and aircraft they serve. And they



777-300: THE PEOPLE MOVER

The 777-300, which had its first flight in 1997, is a stretched version of the 777-200. With 33 feet of extra length, it will carry 20 percent more passengers than the 777-200, or as many as 479 passengers in a typical two-class configuration. The 777-300 is expected to replace early versions of the 747. It will have nearly the same passenger capacity and range capability as the 747-100/-200 models, but will burn one-third less fuel and will have 40 percent lower maintenance costs. The overall result for airlines is cash operating costs one-third below early model 747s. Typical routes will include San Francisco to Tokyo, Honolulu to Seoul and Tokyo to Singapore. First deliveries will be in 1998.



717-200: A NEW REGIONAL JET WITH BIG JET COMFORT AND ECONOMICS

The Boeing 717-200 was first introduced to the world in October 1995 as the McDonnell Douglas MD-95. Renamed the 717-200, the twinjet represents the merged company's commitment to continued development and production of an airplane that is ideally suited to meet worldwide expansion and replacement needs in the short-haul, high-frequency 100-seat market. The 717-200 answers the need for an advanced jetliner below the 737 in size that provides comfort, low operating costs and high schedule reliability. The two-crew flight deck incorporates the industry's most modern and proven avionics. Two advanced high-bypass ratio engines, built by BMW/Rolls-Royce, will power the new twinjet. First deliveries of the 717-200 are scheduled in 1999.

are always there when they are needed. Boeing field-service representatives have a reputation for technical expertise and responsiveness that is second to none. From seven regional parts-distribution centers, Boeing provides next-day parts delivery to customers everywhere.

Boeing Enterprises, formed in 1997, is pioneering new ground in value-added service to airline customers and aerospace-related businesses. The Boeing Business Jet, developed in a joint venture with GE, is a special derivative of the Next-Generation 737-700. We have booked orders for 26 business jets to date, with a total value of more than \$850 million. In a joint venture with FlightSafety International, Boeing Enterprises is providing customers with a complete line of training courses, supporting both initial and recurring training requirements for pilots and mechanics. Boeing Enterprises also invested in a maintenance and modification center in China that is co-owned by airlines.

MARKET OUTLOOK

Growth in air traffic and airline profitability are the principal factors driving demand for new aircraft. Over a period of decades, air travel within and between different regions of the world has grown at a consistently faster rate than underlying regional and global economic growth. For the five-year period from 1993 to 1997, the average annual growth rate for worldwide passenger traffic was approximately 5.7 percent. The company's 20-year forecast of the average long-term growth rate in passenger traffic is approximately 5.0 percent annually for the first half of the 20-year forecast period, and 4.9 percent annually for the balance. This growth in traffic, combined with the need to replace older aircraft in service, is expected to generate demand for more than 17,000 airplanes by the year 2017, valued at approximately \$1.2 trillion.



737-600/-700/-800/-900: THE NEXT GENERATION

The Next-Generation 737 family had a major milestone in late 1997, with the delivery of the first 737-700 to Southwest Airlines. In November, Alaska Airlines became the launch customer for the 737-900, the fourth and longest member of the Next Generation series, carrying about 177 passengers. The new 737-600/-700/-800/-900 models feature crew commonality with today's 737. The Next-Generation 737s have a larger wing, higher cruise speed, greater range and new engines with improvements in noise, fuel burn and thrust. Next-Generation 737s can fly transcontinental routes in the United States and will have greater route capability throughout the world.



757-300/767-400: MORE STRENGTH IN THE MIDDLE OF THE LINEUP

The 757-300 and the 767-400 are the newest members of the popular 757/767 family of medium-sized airplanes. Extra length allows the 757-300 to carry 20 percent more passengers and increases the available cargo volume by nearly 50 percent. First delivery is set for 1999. The extended range 767-400, scheduled to enter service in 2000, will offer ten to 15-percent more seats than the 767-300, carrying 245 to 375 passengers up to 6,450 miles. Both these new airplanes complement the other models in the 757/767 family, adding value for our customers with more options for payload and range, and improved operating economics.

Boeing anticipates delivery of approximately 550 jetliners in 1998. At this point, Boeing does not project any significant reduction in planned production levels over the next two years resulting from the well-publicized financial troubles of several Asian nations.

IMPROVING PROCESSES

In the midst of the fastest production ramp-up in recent history, Boeing has maintained a focus on making substantial improvements in work processes and the flow of parts and materials. A major initiative is underway to vastly simplify the process used to configure each aircraft to customer specifications. In addition, the new system will simplify processes used to schedule and order parts and manage inventory. We are also implementing the principles and practices of “lean” manufacturing to eliminate waste and promote greater efficiency.

To help us implement lean manufacturing, we have adopted a focused “learn/do” system of events that lets people who do the work organize their operations to achieve major reductions in cost and flow time.

We have a great deal to learn, but we have no shortage of bright and motivated people. Through engineering and manufacturing initiatives, we aim to replicate the success of great enterprises that are continually driving down costs and delivering more value to their customers.




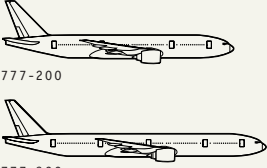
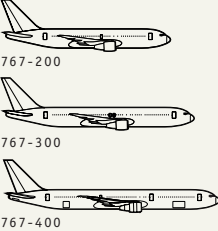
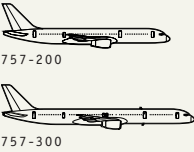


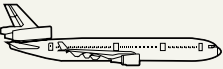


BOEING BUSINESS JET: A GREAT LEAP FORWARD IN EXECUTIVE JETS

The Boeing Business Jet has taken the executive jet market by storm since it was first offered in mid-1996. The business jet is a special derivative of the Boeing 737-700, specifically designed for corporate and VIP applications. With a range capability of 7,140 miles and three times the interior space of the largest competing executive jets, the business jet is available in a variety of configurations that include conference rooms, recreation and exercise facilities, and rest areas. The Boeing Business Jet is comparably priced to existing long-range corporate jets. First deliveries of the business jet will take place in 1998. Customers include General Electric, Malaysia Airlines, and golfer and global businessman Greg Norman.



747: FLAGSHIP OF NATIONS

The 747-400 carries on a proud tradition in the evolving 747 family of aircraft as the flagship of nations. With its huge capacity, long range and fuel efficiency, the 747-400 offers the lowest operating cost per seat of any commercial jetliner. Seating 419 to 568 passengers, the 747-400 has a 8,350-mile range that makes possible nonstop service with full, three-class payloads on such routes as London to Tokyo, Los Angeles to Hong Kong, Singapore to London and Los Angeles to Sydney.

 747-400	<p>The 747-400 seats 419 to 568 passengers and has a range of 8,350 miles. With its huge capacity, long range and fuel efficiency, the 747 offers the lowest operating cost per seat of any commercial jetliner. The 747-400 is available in an all-cargo freighter version as well as a combi model for passengers and cargo.</p> <p style="text-align: right;">Orders: 1,295* Deliveries: 1,136</p>
 777-200 777-300	<p>The 777-200, which seats 305 to 440 passengers depending on configuration, has a range of up to 5,990 miles. The increased-gross-weight, longer-range 777-200IGW was first delivered in February 1997 and can fly the same number of passengers up to 8,900 miles. The 777-300, which rolled out in August 1997 and will be delivered in 1998, is about 33 feet longer than the -200 and can carry from 368 to 550 passengers, depending on seating configuration, with a range of 6,450 miles.</p> <p style="text-align: right;">Orders: 364* Deliveries: 104</p>
 767-200 767-300 767-400	<p>The 767-200 can fly 181 passengers more than 7,650 miles in its extended-range version. The 767-300, also offered in an extended-range version, offers 20 percent more passenger seating. Freighter versions of the 767-200 and -300 are available. The newest member of the family, the extended-range 767-400, is scheduled to enter service in 2000 and will carry from 245 to 375 passengers up to 6,450 miles.</p> <p style="text-align: right;">Orders: 822* Deliveries: 678</p>
 757-200 757-300	<p>Seating from 180 to 230 passengers, depending on configuration, the 757-200 is ideal for high-demand, short- to medium-range operations and can fly nonstop intercontinental routes. It is also available in a freighter version. The 757-300, scheduled for first delivery in 1999, has approximately 20 percent more seating and will have about 10 percent lower seat-mile operating costs than the -200, which already has the lowest seat-mile operating cost in its market segment.</p> <p style="text-align: right;">Orders: 915* Deliveries: 782</p>
 737-500 737-600 737-300 737-700 737-400 737-800 737-900	<p>The Boeing 737 is the best-selling commercial jetliner of all time. The Next-Generation 737-600/-700/-800/-900, the most recent additions to the family, have outsold all other airplanes in their market segment. The 737 is the only airplane family to span the entire 100- to 189-seat market. The family also includes the Boeing Business Jet derivative of the 737-700 (see page 22).</p> <p style="text-align: right;">Orders: 3,884* Deliveries: 2,975</p>
 717-200	<p>The newest member of the Boeing commercial jet airplane family was introduced in October 1995 as the McDonnell Douglas MD-95. The twinjet, renamed the 717-200 in January 1998, will meet the growing need worldwide for a 100-seat regional jet. First delivery is scheduled for mid-1999.</p> <p style="text-align: right;">Orders: 50* Deliveries: 0</p>
 MD-11	<p>Boeing offers the MD-11 in both freighter and passenger versions, with a particular focus on the MD-11 Freighter, which fills the niche between the 767 Freighter and 747 Freighter. The MD-11 Freighter holds more than 21,000 cubic feet of cargo, and the passenger version seats from 233 to 410, depending on configuration.</p> <p style="text-align: right;">Orders: 188* Deliveries: 174</p>
 MD-80	<p>The MD-80 family includes five models – the MD-81, the MD-82, the MD-83, the MD-88 and the smaller MD-87 – with seating for 139 to 172 passengers. Boeing will continue to produce the MD-80 until mid- to late 1999, when current production commitments end.</p> <p style="text-align: right;">Orders: 1,167* Deliveries: 1,157</p>
 MD-90	<p>The MD-90 twinjet is a mid-sized airliner that seats up to 155 passengers. The MD-90 is the quietest large commercial jetliner, and its fuel-efficient engines are designed for reduced exhaust emissions. Boeing will continue to produce the MD-90 twinjet until approximately mid-1999, when current production commitments end.</p> <p style="text-align: right;">Orders: 132* Deliveries: 64</p>

*Orders and deliveries as of December 31, 1997. Order numbers represent those publicly announced by customers and do not include options. Announced orders are not all represented in contractual backlog as included in the Financial Report.

INFORMATION, SPACE AND DEFENSE SYSTEMS

Several years ago, Boeing set out to build a position of leadership in information, space and defense markets comparable to the one we have long held in commercial aircraft. We pursued that objective both through substantial internal investment and through strategic acquisition and merger. Based on 1997 results, it is clear that the new combined company has, indeed, achieved a position of enormous breadth and strength in the targeted areas.

During 1997, the Information, Space & Defense Systems Group (ISDS) accounted for 40 percent of total company sales. Revenues for 1997 included a full year of the aerospace and defense operations acquired from Rockwell International in December 1996. The information, space and defense systems business is broadly diversified, and no program accounted for more than 15 percent of total 1995 to 1997 segment revenues. Further, the Group was strongly profitable, with a pre-tax operating return on sales of 7.3 percent in 1997.

1997 ACHIEVEMENTS IN BRIEF

During 1997 and early 1998, Boeing achieved a wide range of milestones. Each marks a new beginning in major programs. Together, they represent a tremendous future for Boeing in information, space and defense.

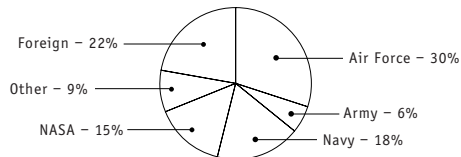
The Joint Strike Fighter successfully passed its initial design review; the F-22 Raptor flew for the first time; the Comanche helicopter successfully expanded its flight envelope; and the F/A-18E/F Super Hornet and the V-22 Osprey entered initial low-rate production. Boeing delivered the 36th C-17 to the U.S. Air Force, and signed a contract with the Air Force for providing extended maintenance support for the C-17 fleet. Boeing made first deliveries of the F-15I to Israel, the U.S. Navy T-45C, the Malaysian F/A-18, the Royal Air Force Chinook and the U.S. Army Apache Longbow. Boeing won a \$450 million contract to develop and test a mission systems upgrade for the 17-plane NATO Airborne Warning and Control System fleet. The Delta program finished 1997

Information, Space and Defense Systems

<i>(Dollars in millions)</i>	1997	1996
Revenues	\$18,125	\$14,934
Operating profit	\$1,317	\$1,387

Information, Space and Defense Systems

1997 Sales by Customer



with 10 consecutive successful launches, reaffirming its record as the most reliable launch vehicle in the industry. The Space Shuttle had a banner year, setting a new NASA record with eight on-time launches. As prime contractor to NASA, Boeing leads a team of companies that has produced more than a quarter million pounds of flight hardware for the International Space Station. About 70 percent of Space Station hardware is now complete, and when the initial launches begin in the summer of 1998, a new era in space exploration will begin.

PEOPLE WORKING TOGETHER

Clearly, the new Boeing includes an all-star cast of programs and, with them, some of the world's most talented technicians and scientists. It has been a top priority of Boeing leadership to turn this assemblage of programs and people into what is truly one company – working together for aerospace leadership.

There was major progress in that direction almost immediately following the completion of the merger of McDonnell Douglas into The Boeing Company. All four of the business units within the Information, Space & Defense Systems Group integrate people from the two company backgrounds as well as from the former Rockwell aerospace businesses.

There were a series of programs and policies rolled out in the second half of 1997 aimed at bringing people together and stimulating communication across the length and breadth of the new company. Underlying these efforts was, and is, the belief that there are tremendous opportunities across all of Boeing businesses. Tied to that is the further belief that greater synergy and teamwork are absolutely vital to satisfying the customer at a time of rapid technological change and ever-increasing competition.



F/A-18E/F SUPER HORNET ENTERS PRODUCTION

The nation's newest fighter and attack aircraft, the F/A-18E/F Super Hornet began low-rate production for the U.S. Navy in September 1997. The Super Hornet is the latest addition to the combat-proven family of F/A-18 Hornets flown by the U.S. Navy, Marine Corps and seven other nations. Both the single-seat E and two-seat F offer longer range, more payload-carrying ability and more powerful engines than prior models, as well as many system upgrades. Although it is 25 percent larger than the Hornet, the Super Hornet has nearly half as many parts. Super Hornets are scheduled to join the U.S. Navy fleet in 2001, with production expected to continue beyond 2010.



THE WORLD'S MOST VERSATILE MILITARY TRANSPORT

The C-17 Globemaster III is the most advanced, versatile airlifter ever made, capable of flying long distances, carrying more than 170,000 pounds of payload and landing on short, rough runways close to front lines. Since entering service in 1995, the C-17 has become the U.S. Air Force's premier airlifter, supporting U.S. peacekeeping and humanitarian relief efforts around the world. At the end of 1997, Boeing had delivered 36 C-17s to the U.S. Air Force, with a contract to build a total of 120 aircraft through the year 2004.

INNOVATION AND AFFORDABILITY

As a broad-based supplier of aerospace hardware and software, Boeing strives to provide systems solutions to customer problems that are both innovative and affordable. Military customers demand cost-effective technology that will help reduce or eliminate losses on the battlefield, while the government or commercial space launch customer wants access to space at lower cost.

The role of Phantom Works is to help the other ISDS business units solve these problems quickly and effectively. From analyzing customer requirements to developing and testing the technologies and systems that meet them, Phantom Works focuses on making breakthroughs in affordability and performance that can be rapidly transitioned into Boeing products, or even be used to establish new products.

In 1997, for instance, Phantom Works began transitioning commercially based avionics technology it developed for military aircraft into the AV-8B, F-15E and F/A-18C/D. This technology reduces avionics development and maintenance costs by 50 percent and can be easily applied to other military aircraft as well, including the Joint Strike Fighter (JSF). For JSF, Phantom Works is using low-cost tooling and advanced design and manufacturing techniques to significantly reduce the cycle time, parts count, weight and cost of the prototype forward fuselage of this advanced combat aircraft.

A core strategy of the company is to be the leader in providing low-cost access to space for both commercial and government customers. Boeing has helped reduce the Space Shuttle's operations budget by more than \$1 billion during the last four years. The Delta III rocket, which begins operations in 1998, will have more than double the lift capacity of the Delta II. We have also



FIRST 767 AWACS SCHEDULED FOR 1998 DELIVERY

For more than two decades, the Boeing Airborne Warning and Control System (AWACS) has been the world's standard for airborne early warning systems. A military version of the Boeing 767 is the current AWACS platform. The Boeing AWACS offers the world's most effective airborne early warning system. Its flexible, multimode radar allows AWACS to separate maritime and airborne targets from ground and sea clutter, and to detect and identify targets more than 200 miles away. The first two of four 767 AWACS ordered by Japan are scheduled for delivery in the first quarter of 1998.



AH-64D APACHE LONGBOW IN SERVICE WITH U.S. ARMY

The first AH-64D Apache Longbow was officially delivered to the U.S. Army in March 1997. The AH-64D, a significantly advanced version of the battle-proven AH-64A Apache, is the most lethal, survivable, deployable and maintainable multimission helicopter in the world. Boeing has a multi-year contract to remanufacture 232 AH-64As into AH-64Ds. The AH-64D is being developed by a team that includes the U.S. Army, Boeing as total systems integrator, and a joint venture composed of Lockheed Martin and Northrop Grumman to develop the Longbow fire control radar and the radar-frequency Hellfire missile.

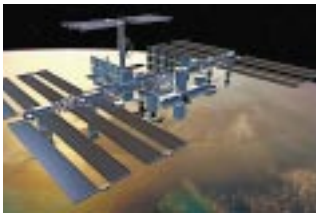
begun development of the Delta IV family of launch vehicles that will reduce the cost of access to space by 25 to 50 percent per pound through common components, streamlined launch operations and new, low-cost engines.

MARKET OUTLOOK

Following a steep decline over the past decade, the U.S. defense procurement budget appears to have stabilized, with a possibility of modest growth over the next few years. Boeing is well positioned to compete. The company is a strong participant across the board in major U.S. Department of Defense research and development programs in fighter aircraft, rotorcraft, transports and missile systems. At the same time, the company is the dominant producer of all types of tactical aircraft in current production, and one of the principal producers of

strike missiles. Thus, Boeing will continue to be a clear leader in defense regardless of whether current programs are extended or new ones enter production to replace them.

While NASA budgets are not expected to grow significantly in the near future, we will continue to be NASA's largest contractor, and are positioned to participate in major new initiatives. Moreover, the outlook for commercial uses of space and advanced information systems is extremely bright. Industry forecasts indicate that up to 2,000 communication satellites will need to be launched within the next 10 years. As the 21st century commences, Boeing expects to be a major participant in, and contributor to, the development of low-cost launch systems and the spread of new space-based communications systems.



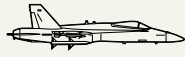
SPACE STATION HARDWARE TO FLY IN 1998

Boeing is prime contractor for the International Space Station, leading the industry team to build the largest, most complex structure ever placed into orbit. The Space Station is the largest international venture in science and technology ever undertaken, combining the efforts of 16 nations. The first two elements of the International Space Station are scheduled for launch into orbit this summer, and a crew of three will begin continuous operations in early 1999. When completed in late 2003, the International Space Station will house a crew of six and weigh nearly 1 million pounds, covering an area greater in size than a football field.



DELTA - ROCKETING INTO THE FUTURE

The Delta II medium-capacity rocket is the world's most reliable expendable launch vehicle. The Delta III intermediate-class rocket, which is expected to begin operations in June 1998, is the newest, largest, and most powerful Delta - with more than twice the lifting power of the Delta II. Boeing is developing the new Delta IV family of vehicles in response to the U.S. Air Force Evolved Expendable Launch Vehicle (EELV) initiative, aimed at reducing space launch costs by up to 50 percent.



F/A-18C/D HORNET



F/A-18E/F SUPER HORNET

The F/A-18 Hornet strike fighter, flown by the U.S. Navy, Marine Corps and seven other nations, was the first tactical aircraft designed to perform both air-to-air and air-to-ground missions. The upgraded F/A-18C/D Night Strike, which was introduced in 1989, flies at night and in any weather. (See page 25 for more on the F/A-18E/F Super Hornet.)



JSF

Boeing was awarded one of two \$660 million contracts in 1996 from the Department of Defense to build and flight-test two variants of the Joint Strike Fighter. As currently structured, selection of a single contractor to build as many as 3,000 of the affordable, multi-service fighters would take place early in the next century.



F-22 RAPTOR

Boeing and Lockheed Martin are developing the U.S. Air Force's next-generation air superiority fighter. The F-22 program is in the engineering and manufacturing development phase, calling for the production of nine flight-test and two ground-test aircraft. First flight took place on September 7, 1997, and initial production is scheduled to begin in late 1998.



F-15 EAGLE

The F-15E Eagle is the U.S. Air Force's most able fighter-bomber. The versatile dual-role aircraft carries a variety of air-to-air and air-to-ground weapons. It can operate round the clock and in any weather. The U.S. Air Force contracted for five additional new attrition reserve F-15E aircraft in 1997. The F-15 program has a backlog of more than 80 aircraft.



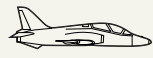
AV-8B HARRIER II PLUS

The newest member of the AV-8 Harrier family, the Harrier II Plus adds the APG-65 radar system to the aircraft's proven vertical and short fixed-wing takeoff and landing capabilities. A Boeing, British Aerospace, and Rolls-Royce team produces the AV-8B, and the Harrier II Plus was developed through a three-nation agreement among the United States, Spain and Italy.



B-1B LANCER

North American Aircraft, now Boeing North American, produced 100 B-1B bombers for the U.S. Air Force in the 1980s. The range, speed and large payload capacity of the B-1B make it an ideal platform for both conventional and nuclear weapons as well as short-range attack and air-launched cruise missiles. Boeing continues to provide engineering support and enhancements for the B-1B under contract to the U.S. Air Force.



T-45A GOSHAWK

The T-45A Goshawk aircraft is the key component of the T-45 Training System, the first totally integrated training system developed for and used by the U.S. Navy. The T-45TS also includes advanced flight simulators, computer-assisted instructional programs, a computerized training-integration system and a contractor logistics support package.



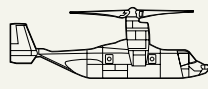
C-17 GLOBEMASTER III

Soon after the C-17 Globemaster III entered service in 1995, it became the U.S. Air Force's premier airlifter (see page 25).



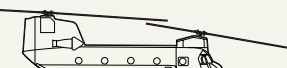
767 AWACS

A modified Boeing 767 is the newest Airborne Warning and Control System (AWACS) platform, following the successful performance of the 707 in that role. Japan has ordered four 767 AWACS, with deliveries to begin in early 1998 (see page 26).



V-22 OSPREY

In partnership with Bell Helicopters, Boeing is developing the V-22 Osprey tiltrotor aircraft under a \$1.38 billion contract. Low-rate initial production of the first five production aircraft began in 1997. Initial deliveries to the U.S. Marine Corps will start in 1999.



CH-47 CHINOOK

The CH-47D Chinook is a twin-turbine, tandem-rotor, heavy-lift transport helicopter. Its high speed and large payload give the CH-47D the lowest transport cost per mile of any U.S. Army helicopter. Military customers in 15 nations fly the CH-47 Chinook.



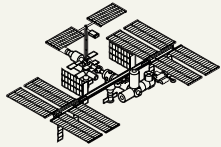
RAH-66 COMANCHE

A Boeing-Sikorsky team is developing the U.S. Army's 21st-century armed reconnaissance helicopter. One Comanche prototype is currently in flight test; a second helicopter will enter the test program in 1998.



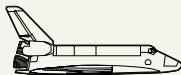
AH-64D APACHE LONGBOW

The AH-64D Apache Longbow is the newest and most advanced anti-armor helicopter in the U.S. Army inventory (see page 26).



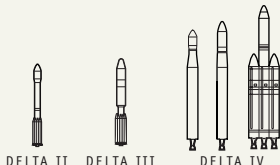
INTERNATIONAL SPACE STATION

Boeing is prime contractor to NASA for the design, development and on-orbit performance of the U.S. components of the Space Station. The first launch of components is scheduled for the summer of 1998, and crews will begin continuous operations beginning in early 1999 (see page 27).



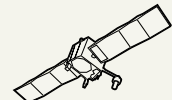
SPACE SHUTTLE

As a partner in United Space Alliance, a joint venture with Lockheed Martin, Boeing provides overall system integration for the shuttle, as well as operations support, payload integration, engineering support and orbiter modifications. Boeing is also developing upgrades that will enable the shuttle fleet to fly through 2012.



DELTA II DELTA III DELTA IV

Delta rockets have been in service since the 1960s, but the Delta family of launch vehicles continues to evolve to meet the need for higher payloads and lower cost access to space (see page 27).



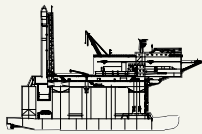
GLOBAL POSITIONING SYSTEM

A team led by Boeing has a U.S. Air Force contract to design, develop and produce the next generation of Navstar Global Positioning System (GPS) satellites. If all options are exercised, the contract has a potential value of \$1.3 billion, with deliveries beginning in April 2001.



AIRBORNE LASER

As Team ABL, Boeing, TRW and Lockheed Martin have a \$1.1 billion contract to conduct the program definition and risk reduction phase of the Airborne Laser program. This U.S. Air Force effort is intended to explore the feasibility of an airborne laser system for defense against tactical theater ballistic missiles such as the Scud missiles used by Iraq during Desert Storm.



SEA LAUNCH

The Sea Launch Limited Partnership, involving Boeing Commercial Space Company and firms from Russia, Ukraine and Norway will begin satellite launches from a mobile platform in the Pacific Ocean in late 1998.

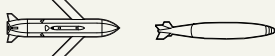


MINUTEMAN III

In 1997, Boeing won an \$824 million contract as part of the TRW team that won the Air Force ICBM prime integration contract for sustainment work on the U.S. ICBM fleet. Boeing is already under contract to the government for the Minuteman III Guidance Replacement Program (GRP), which will ultimately be incorporated into the ICBM prime integration contract. The GRP program will have a value in excess of \$1 billion.



SLAM



JASSM

JDAM

The AGM-84E Standoff Land Attack Missile (SLAM) is the U.S. Navy's only air-launched precision-guided standoff missile system. An improved version, the SLAM ER, is in flight test. The Joint Direct Attack Munition, or JDAM, upgrade guidance kit converts free-falling bombs into "smart munitions" capable of seeking targets. The Joint Air-to-Surface Standoff Missile (JASSM) for U.S. Air Force and Navy aircraft is being developed to allow attack from beyond the range of enemy air defenses.

COMMITMENT TO OUR COMMUNITIES

Boeing and our employees contributed more than \$90 million in 1997 to support education, health and human services, the arts and civic programs.

CONTRIBUTIONS AND EDUCATION

The merger of Boeing and McDonnell Douglas united two respected, remarkably similar traditions of corporate citizenship. As one company, we share a deeply felt commitment to improve the quality of life in the communities where we work and live. Our efforts this year continued to focus on education, health and human services, the arts and civic participation. Company contributions to these causes totaled \$51.3 million.

We believe that no investment provides greater or more lasting rewards than education. The largest share of our company's 1997 cash contributions—\$16 million—went to support grades K through 12, colleges and universities.

Our approach to educational philanthropy requires hands-on participation. At the state and local levels, our partnerships extend from elementary schools through four-year universities. Our goal is to give every student the opportunity to reach full potential through clear, consistent academic goals and increased accountability. More than 80 colleges and universities across the United States have joined forces with Boeing to enhance engineering curricula to better prepare students for the challenges of the 21st century.

The company's Tech Prep program continues to serve as a successful model of school-to-work programs. Students begin participating in the 11th grade; after three summer internships at Boeing, and completion of an associate degree in manufacturing technology, they are confident, capable potential employees. This year the National Alliance of Businesses recognized Tech Prep as the finest school-to-work program in the country.

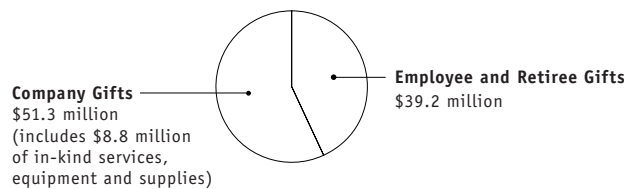
Together, through employee charitable organizations, the people of Boeing donated a record-breaking \$33 million to charitable causes. They also contributed \$6.2 million through a company-sponsored gift-matching program, most of which was targeted for education. Boeing employees not only gave money, but also of themselves by volunteering hundreds of thousands of hours in service to the communities where they live and work.

SAFETY, HEALTH AND THE ENVIRONMENT

At Boeing, we recognize that every part of a system—whether it is the manufacture of airplanes, the atmosphere of our planet, or the physical well-being of our employees—can and should contribute to a safe, healthy, sustainable way of life.

1997 Company and Employee Gifts

Total: \$90.5 million



This year, we began testing two aviation paint primers which do not include chromium, a toxic chemical compound previously used for its resistance to corrosion. In September, the EPA honored the C-17 program with its Region IX Pollution Prevention Award for reducing and eliminating the generation of pollutants at their source. Our close attention to the emission of high-priority toxic chemicals has brought about a 74 percent improvement since 1991.

We were proud to work with the United Nations Environmental Programme to sponsor a conference in India, which focused on ozone-depleting gas emissions in the aviation industry. Closer to home, we joined with businesses and communities near our Everett, Washington, manufacturing plant to develop innovative strategies to preserve wetland animal habitat.

Worker safety has always been a core value for Boeing. In 1997, we partnered with the National Safety Council to sponsor the Institute for Safety through Design. Over the last three years, we have reduced by 22 percent the number of job-related injuries and illnesses that resulted in employees losing time from work.

In another approach to wellness, we launched a program called Vital Measures. Within two years, it will be providing health information and medical assessment resources to all of our employees and retirees, and their families.

SMALL BUSINESS PROGRAMS

Boeing efforts to increase opportunities for small businesses continue to lead the aerospace industry. We are committed to ensuring that all small businesses, including those owned by minorities and women, have the maximum opportunity to compete for contracts.

In 1997, the Boeing Small Business program received an "Outstanding" rating by one of our major customers, the Defense Logistics Agency. Boeing also marked the 25th anniversary of programs specifically aimed at minority-owned small businesses, illustrating our long-term commitment to minority suppliers.

Boeing subcontract awards to all small businesses totaled \$7.7 billion in 1997. Of that, minority-owned and women-owned small businesses were awarded \$959 and \$605 million respectively.



TEACHING TEACHERS

Teachers who are enthusiastic about their subjects can ignite curiosity and the motivation to excel. Every year, the Boeing Discover Engineering Program holds Educator Enrichment Day, where elementary and middle-school teachers learn ingenious ways to present math and science. Workshops cover everything from "What Makes a Doorbell Work" to "Living and Working in Space." Teachers return to their classes with "how-to" kits, great ideas for experiments, and renewed power to inspire their students and fellow teachers. Attendance grows each year; in 1997, Educator Enrichment Day drew 531 teachers from 238 schools in 82 cities.



GIFTS FROM THE HEART

Boeing employees and retirees have always been quick to provide essentials for those in need, whether that means warm clothing, a book to stir the imagination or ingredients for dinner. In 1997, their compassion and energy brought about the distribution of 50,622 books for children, 44,959 coats and blankets, 88,982 toys and gifts, and 110,000 pairs of children's socks. During food drives that stretched across the United States and Canada, employees and retirees filled enough boxes to create a final tally of 1,276,690 pounds — a heartfelt gift in the fight against hunger.

1997 FINANCIAL REPORT

THE BOEING COMPANY

FINANCIAL TABLE OF CONTENTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

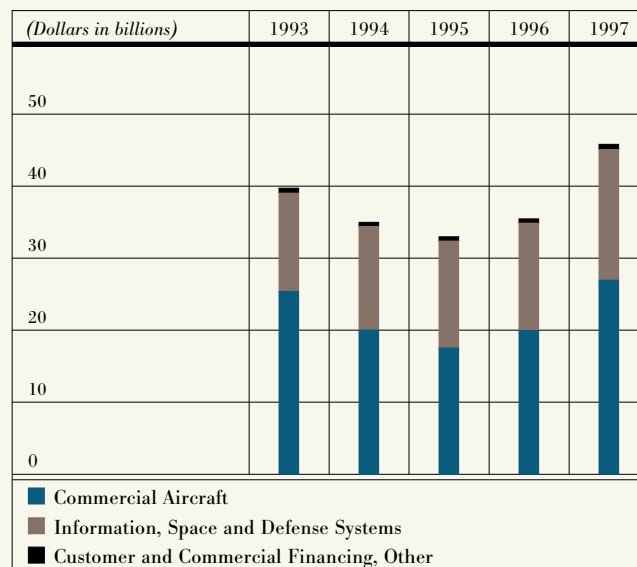
RESULTS OF OPERATIONS, FINANCIAL CONDITION AND BUSINESS ENVIRONMENT

Merger with McDonnell Douglas Corporation

Effective August 1, 1997, McDonnell Douglas Corporation merged with the Company through a stock-for-stock exchange in which 1.3 shares of Company stock were issued for each share of McDonnell Douglas stock outstanding. The merger is accounted for as a pooling of interests, and the discussion and analysis that follows reflects the combined results of operations and financial condition of the merged companies.

RESULTS OF OPERATIONS**Revenues**

Operating revenues for 1997 were \$45.8 billion, compared with \$35.5 billion in 1996 and \$33.0 billion in 1995. The higher revenues for 1997 reflect the increased deliveries in both the Commercial Aircraft and the Information, Space and Defense Systems segments and the inclusion in 1997 of the operations of the aerospace and defense units acquired from Rockwell International Corporation in December 1996.

Revenues by industry segment:**FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY**

When used in this Management's Discussion and Analysis of Results of Operations, Financial Condition and Business Environment, the words "estimate," "project," "intend," "expect" and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Such risks and uncertainties include those identified under the headings "Commercial Aircraft Business Environment and Trends," "Information, Space and Defense Systems Business Environment and Trends," elsewhere throughout this Management's Discussion and Analysis of Results of Operations, Financial Conditions and Business Environment, and in Note 21 to the Consolidated Financial Statements on page 69. Boeing does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Annual Report or to reflect the occurrence of unanticipated events.

Commercial Aircraft

Commercial Aircraft products and services accounted for 59%, 56% and 53% of total operating revenues for the years 1997, 1996 and 1995, respectively.

Commercial jet aircraft deliveries by model, including deliveries under operating lease which are identified by parentheses, were as follows:

	1997	1996	1995
737	135	76	89
747	39	26	25
757	46	42	43
767	41	42	36
777	59	32	13
MD-80	16 (7)	12 (1)	18 (2)
MD-90	26 (5)	24 (2)	14
MD-11	12 (1)	15 (2)	18
Total	374	269	256

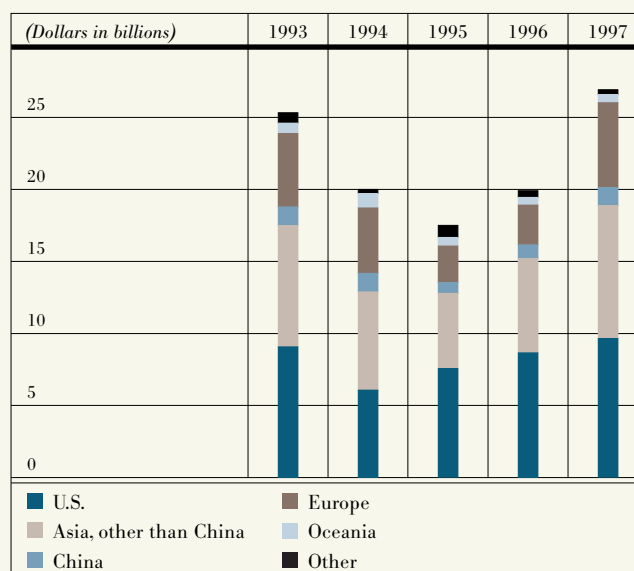
A ten-week labor strike in 1995 resulted in the delay of approximately 30 7-series commercial aircraft deliveries, or approximately \$2 billion in sales.

For the first quarter of 1998, the planned production rate for 7-series models (excluding the 717) is 40 aircraft per month, up from a low of 18 1/2 aircraft per month in 1996. The production rate is planned to increase to 43 aircraft per month during the second quarter of 1998. Production will continue to be adjusted to reflect customer requirements and the Company's capabilities.

The MD-80 and MD-90 aircraft, which are currently being produced at a rate of four per month, will not be produced after 1999 based on current plans. Production of the MD-11 will continue at a relatively low rate through 1998, and future sales prospects are principally limited to the freighter version. First delivery of the 717 aircraft (formerly the MD-95) is scheduled for 1999. The Company has restructured the 717 program and is committed to an aggressive marketing effort to take advantage of the longer-term market opportunities for a 100-seat aircraft. Announced firm orders to date total 50 aircraft to a single customer.

Total commercial jet aircraft deliveries for 1998 are currently projected to be in the range of 550 aircraft, including approximately 225 of 777s and the newer-model 737s. Commercial transportation sales trends are discussed further in the Commercial Aircraft Business Environment and Trends section on pages 43-44.

Commercial sales by geographic region:



Information, Space and Defense Systems

Information, Space and Defense Systems segment revenues were \$18.1 billion in 1997, compared with \$14.9 billion in 1996 and \$14.8 billion in 1995. The 1997 revenues included a full year of the aerospace and defense operations acquired from Rockwell effective in December 1996. A 14-week labor strike at the St. Louis, Missouri, facilities delayed certain deliveries in 1996, principally involving military aircraft.

The Company's Information, Space and Defense Systems business is broadly diversified, and no program accounted for more than 15% of total 1995-1997 segment revenues.

The principal contributors to 1997 Information, Space and Defense Systems revenues included the C-17, F/A-18 C/D, International Space Station, F-15, E-3 AWACS (Airborne Warning and Control System) updates and 767 AWACS, F/A-18 E/F, the Delta II space launcher, F-22, and CH-46/47 helicopter programs. Classified projects for the U.S. Government also continued to contribute to segment revenues.

Deliveries of selected production units were as follows:

	1997	1996	1995
C-17	7	6	6
F/A-18 C/D	46	32	43
F/A-18 C/D Kits	20	9	3
F-15	19	11	5
Delta II	12	11	3
T-45TS	11	9	15

Segment business trends are discussed further in the Information, Space and Defense Systems Business Environment and Trends section on pages 45-46.

Customer and Commercial Financing, Other

Operating revenues in the Customer and Commercial Financing, Other segment were \$746 million in 1996, compared with \$603 million in 1996 and \$600 million in 1995. The major revenue components include commercial aircraft financing and commercial equipment leasing.

Additional information relating to revenues and earnings contributions by business segment is presented on page 49.

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Based on current programs and schedules, the Company projects total 1998 revenues to be in the \$55 billion range.

Earnings

Net earnings for the three years included significant special charges in addition to non-operating earnings fluctuations associated with the ShareValue Trust, as summarized below:

<i>(Dollars in millions)</i>	1997	1996	1995
Net earnings before special charges and ShareValue Trust	\$ 632	\$1,905	\$ 1,479
Special charges principally associated with Douglas Products (MD-series aircraft)	(876)		(1,125)
Special early retirement program			(390)
ShareValue Trust	66	(87)	
Net earnings (loss)	\$(178)	\$1,818	\$ (36)

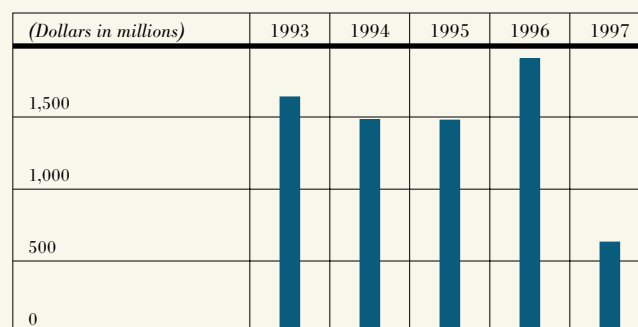
In the fourth quarter of 1997, the Company completed an assessment of the financial impact of its post-merger strategy decisions related to its McDonnell Douglas Corporation commercial aircraft product lines and recorded a special pretax charge of \$1,400 million, or \$876 million after tax, relative to these decisions. The charge principally represented an inventory valuation adjustment based on post-merger assessments of the market conditions and related program decisions. Also included in the charge were valuation adjustments in connection with customer financing assets and commitments.

The accounting for the MD-11 program was changed to the specific-unit cost method from the program method of accounting in 1995, resulting in the revaluation of the MD-11 program inventory. This revaluation resulted in a 1995 non-cash pretax charge to operations of \$1,838 million, or \$1,125 million after tax.

A special retirement program was offered during the first half of 1995 to encourage early retirements, resulting in a pretax charge of \$600 million, or \$390 million after tax.

The ShareValue Trust arrangement is discussed in Note 14 to the Consolidated Financial Statements on page 64.

Comparative net earnings (exclusive of special charges and ShareValue Trust):



The comparable net earnings for 1997 were \$1,273 million lower than for 1996 primarily due to the commercial aircraft production inefficiencies associated with significant production rate increases. Additionally, 1997 pretax results included increased research and development spending of \$291 million, merger-related expenses of \$120 million (not tax deductible), and increased interest and debt expense of \$120 million. Partially offsetting these factors were the earnings associated with the higher sales levels in 1997 and increased interest income of \$40 million. The 1996 results included \$199 million of after-tax income related to the settlement of certain Information, Space and Defense Systems segment contract issues and recognition of prior years' tax benefits.

The comparable earnings of \$1,905 million for 1996 were \$426 million higher than 1995 primarily due to higher commercial jet aircraft deliveries, increased interest income and recognition of prior years' tax benefits.

Essentially all of the Company's business is performed under contract; therefore, operating results trends are not significantly influenced by the effect of changing prices.

Operating Profit

Commercial Aircraft

The overall 1997 Commercial Aircraft segment operating profit margin, exclusive of research and development expense and the Douglas Products Division special charges, was less than 3% for 1997, compared with more than 10% for each of the prior two years. Segment revenues and earnings are presented on page 49.

The lower overall Commercial Aircraft operating profit margin was attributable to production problems discussed in the next paragraph, the model mix of aircraft deliveries and continued pricing pressure.

Production problems being experienced on the commercial aircraft programs reached unexpected levels late in the third quarter of 1997. The Company is in the midst of an unprecedented production rate build-up for the 7-series commercial aircraft programs, and has experienced a number of challenges, including raw material shortages, internal and supplier parts shortages, and productivity inefficiencies associated with adding thousands of new employees. These factors have resulted in significant out-of-sequence work. The breadth and complexity of the entire commercial aircraft production process, especially during this time of substantial production rate increases, present a situation where disrupted process flows are causing major inefficiencies throughout the entire process chain. The 747 and 737 production lines were halted for approximately one month early in the fourth quarter of 1997. Process inefficiencies and work-arounds will continue until the entire process is substantially back in balance, which is expected to occur in 1998.

With regard to model mix, there were 27 more 777 aircraft delivered in 1997 than in 1996, and three 737-700s, the first of the Next-Generation 737 models (737-600/700/800/900), delivered in 1997. New commercial jet aircraft programs normally have lower operating profit margins due to initial tooling amortization and higher unit production costs in the early years of a program averaged over the initial production quantity (400 aircraft each for the 777 and the Next-Generation 737). Additionally, a pretax forward loss of \$700 million was recognized in the third quarter of 1997 for the Next-Generation 737 program. Consequently, there will be no gross profit for this program until the program-commitment accounting quantity is extended beyond the initial 400 units. The timing of extending the program-commitment accounting quantity will be dependent on

the successful execution of production recovery plans and further production rate increases in 1998. Increased deliveries of the 777 and the Next-Generation 737 will constitute a much larger proportion of commercial aircraft sales in 1998 than in 1997.

The commercial jet aircraft market and the airline industry remain extremely competitive. Competitive pressures as well as increased lower-fare personal travel have combined to cause a long-term downward trend in passenger revenue yields on a worldwide basis (measured in real terms). Over the past two years, airplane capacity increases in the United States have lagged air travel growth, resulting in stable or increasing passenger yields. In Asia, slowing economies, reduced business travel, and currency devaluations are contributing to sharply lower yields. These factors result in continued price pressure on the Company's products, and major productivity gains are essential to ensuring a favorable market position at acceptable profit margins.

Information, Space and Defense Systems

Information, Space and Defense Systems segment operating profits for 1997 and 1996 presented on page 49 included the impact of losses from joint venture development costs expensed as incurred. These joint venture charges amounted to \$102 million in 1997 and \$53 million in 1996, and were primarily associated with the Sea Launch program, (a commercial satellite launch venture with Norwegian, Russian and Ukrainian partners) and the Civil Tiltrotor program (a collaboration with Bell Helicopter Textron, Inc., to build a commercial tiltrotor).

Segment operating profits for 1996 included \$114 million of pretax earnings related to the settlement of various contract matters.

Excluding these items, the Information, Space and Defense Systems segment operating margin before research and development was approximately 12% for each of the past three years.

Since 1994, a significant percentage of Information, Space and Defense Systems segment business has been in developmental programs under cost-reimbursement-type contracts, which generally have lower profit margins than fixed-price-type contracts. The current major developmental programs include the International Space Station, F/A-18 E/F, F-22 Fighter, Joint Strike Fighter, V-22 Osprey tiltrotor aircraft, and the RAH-66 Comanche helicopter. The F/A-18 E/F and V-22 Osprey tiltrotor aircraft programs have entered into low-rate initial production.

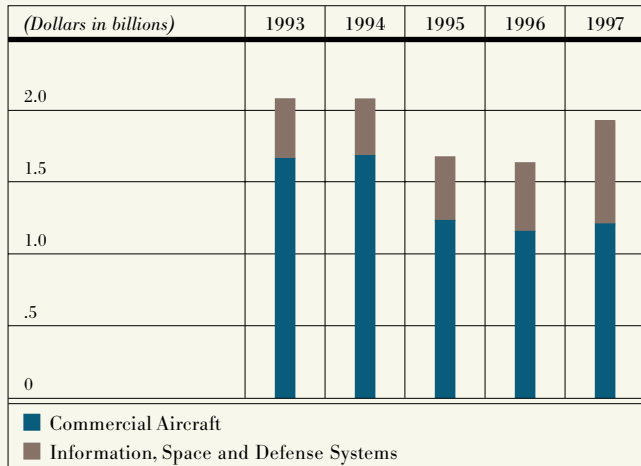
The Company and Lockheed Martin are 50/50 partners in United Space Alliance (USA), which is responsible for all ground processing of the Space Shuttle fleet and for space-related operations with the United States Air Force. USA also performs the modification, testing and checkout operations required to ready the Space Shuttle for launch. Although the joint venture operations are not included in the Company's consolidated statements, the Company's proportionate share of joint venture earnings is recognized in income.

Write-offs of joint venture developmental expenditures will continue in 1998, principally from development and administrative costs on the Sea Launch program.

Research and Development

Research and development expenditures charged directly to earnings include design, developmental and related test activities for new and derivative commercial jet aircraft, other company-sponsored product development, and basic research and development.

Research and development expense:

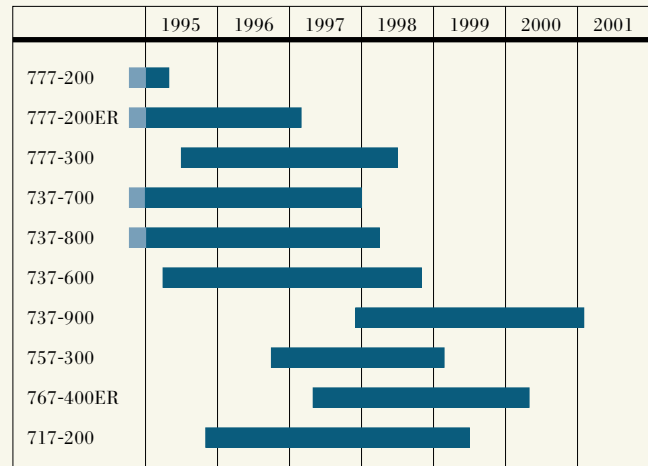


The 1997 increase in research and development expense of \$291 million was primarily attributable to the inclusion of the aerospace and defense units acquired from Rockwell in December 1996, and spending in commercial space and communications activities. Commercial Aircraft research and development expense was approximately the same as in 1996. Research and development by segment is identified on page 49.

Commercial Aircraft

The principal Commercial Aircraft developmental programs during the 1995-1997 period were the 777 wide-body twinjet, the Next-Generation 737 family, and the 717 program. The first delivery of the 777 occurred in May 1995. Development of the 777-200ER extended-range version of the 777 commenced in 1995 and continued in 1996, with certification and first delivery in early 1997. The increased-capacity version 777-300 continues to be under development, with certification and first delivery scheduled for mid-1998. The certification and first delivery of the 737-700, the first of four new 737 derivative models, occurred in December 1997. Certification and first delivery of the 737-800 and 737-600 will occur in 1998. The 737-900, the longest member of the Next-Generation 737 family, received its initial order in late 1997, with first delivery scheduled for 2001. The 757-300, a stretched derivative of the 757-200, is scheduled for initial delivery in early 1999; and the 767-400ER, a stretched version of the 767-300ER, is scheduled for initial delivery in the year 2000. The 717 is currently in development, with first delivery scheduled for 1999.

The following chart summarizes the time horizon between go-ahead and certification/initial delivery for major commercial airplane derivatives and programs.



Information, Space and Defense Systems

The Information, Space and Defense Systems segment's principal commercial developmental programs are focused on space and communication activities, including the Delta family of launch vehicles.

The segment continues to selectively pursue commercial-type business opportunities where it can utilize its technical and large-scale integration capabilities. Such business pursuits, which are outside the traditional U.S. Government contracting environment, are expected to require increased levels of research and development expenditures over the next few years.

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Total Company research and development expenditures for 1998 will be influenced by the timing of commercial aircraft derivative programs and commercial space and communication activities. Based on current programs and plans, research and development expense for 1998 is expected to be in the \$2.0 billion range. Research and development activities are discussed further in the Strategic Investments for Long-Term Value section on pages 46 and 47.

Income Taxes

The income tax provision for 1997 is a tax credit resulting from application of the tax rate to a pretax loss. The relatively high effective income tax rate of 47.8% reflects additional credits for benefits, principally Foreign Sales Corporation tax benefits of \$79 million. These benefits were partially offset by the nondeductibility of goodwill and merger costs. The 1996 effective income tax rate of 26.7% reflects the recognition of tax benefits of \$125 million related to prior years as well as Foreign Sales Corporation tax benefits of \$110 million. The income tax provision for 1995, like the 1997 provision, is applied to a pretax loss and results in a tax benefit. The effective income tax rate for 1995 was 91.3% after inclusion of a research and experimentation tax benefit of \$90 million and a Foreign Sales Corporation tax benefit of \$85 million.

Additional information relating to income taxes is found in Note 9 to the Consolidated Financial Statements on page 59.

LIQUIDITY AND CAPITAL RESOURCES

The primary factors that affect the Company's investment requirements and liquidity position, other than operating results associated with current sales activity, include the timing of new and derivative commercial jet aircraft programs requiring both high developmental expenditures and initial inventory buildup; cyclical growth and expansion requirements; customer financing assistance; and the timing of federal income tax payments.

Cash Flow Summary

Following is a summary of cash flow based on changes in cash and short-term investments. This cash flow summary is not intended to replace the Consolidated Statements of Cash Flows on page 53 that are prepared in accordance with generally accepted accounting principles, but is intended to highlight and facilitate understanding of the principal cash flow elements.

<i>(Dollars in billions)</i>	1997	1996	1995
Net earnings (loss)	\$(0.2)	\$ 1.8	\$ -
Non-cash charges to earnings (a)	2.8	1.5	3.9
Net earnings adjusted for non-cash items	2.6	3.3	3.9
Change in gross inventory (b)	(4.9)	(1.9)	(1.9)
Change in customer advances (c)	3.9	2.2	0.5
Net changes in receivables, liabilities and deferred income taxes (d)	0.7	1.1	(0.7)
Facilities and equipment expenditures	(1.4)	(1.0)	(0.7)
Change in customer and commercial financing (e)	(0.9)	0.3	1.1
Pension funding in excess of expense	(0.3)	(0.2)	(0.3)
Cash flows from operating and investing activities	(0.3)	3.8	1.9
Change in debt (f)	(0.6)	(0.1)	0.2
Net shares issued (acquired)	0.3	(0.5)	(0.2)
ShareValue Trust shares acquired (g)		(0.9)	
Cash dividends	(0.6)	(0.5)	(0.4)
Increase (decrease) in cash and short-term investments	\$(1.2)	\$ 1.8	\$ 1.5
Cash and short-term investments at end of year	\$ 5.1	\$ 6.3	\$ 4.5

- (a) Non-cash charges to earnings consisted of depreciation, amortization, retiree health care accruals, ShareValue Trust appreciation fluctuations, the special charges for Douglas Products Division programs in 1997 and 1995, and the early retirement program special charge in 1995. The Company has not funded retiree health care accruals and, at this time, has no plan to fund these accruals in the future. The ShareValue Trust charge to earnings relates to potential distributions from an irrevocable trust established by the Company in 1996. The obligation to make these distributions is solely that of the Trust, and current and future ShareValue Trust charges and credits reflected in earnings will not impact the Company's current or future cash flow. The special charges associated with the Douglas Products programs principally involved inventory balance valuation adjustments. Funding for the special retirement program charge occurs over a minimum of ten years, to the extent that any incremental funding is required. Pension plan funding in excess of pension plan expense is separately indicated.
- (b) Inventory associated with the 777 program increased substantially throughout the 1995-1997 time period due to initial tooling and production inventory buildup. Inventory balances on the 737, 747, 757 and 767 commercial jet programs increased in 1995 due to the ten-week labor strike, and increased in 1996 due to increased production rates. Additionally, the new 737-600/700/800 program resulted in increased production and tooling inventory in 1996 and 1997.
- (c) The increase in commercial customer advances during 1995 was principally associated with the 777 program, while the increase during 1996 and 1997 was broadly distributed among the commercial jet programs. With regard to information, space and defense systems activity, the ratio of progress billings to gross inventory did not significantly change during this period.
- (d) Over the three-year period 1995-1997, changes in accounts receivable, accounts payable, other liabilities and deferred taxes resulted in a net increase in cash of \$1.1 billion. This was largely attributable to increases in accounts payable and other liabilities of \$2.3 billion, mostly as a result of increased business activity, partially offset by income taxes payable and deferred of \$1.2 billion. Federal income tax payments over the next two years are projected to substantially exceed income tax expense due to anticipated completion of contracts executed under prior tax regulations.
- (e) The changes in customer financing balances have been largely driven by commercial aircraft market conditions and the ability of the Company to sell customer financing assets. Over the three-year period 1995-1997, the Company generated \$5.1 billion of cash from principal repayments and by selling customer financing receivables and operating lease assets. Over the same period, additions to customer financing amounted to \$4.6 billion. As of December 31, 1997, the Company had outstanding commitments of approximately \$6.0 billion to arrange or provide financing related to aircraft on order or under option for deliveries scheduled through the year 2006. However, not all these commitments are likely to be utilized. The Company will continue to sell financing assets from time to time when capital markets are favorable in order to maintain maximum capital resource flexibility. Outstanding loans and commitments are primarily secured by the underlying aircraft.
- (f) Debt amounting to \$637 million matured in 1997. The Company also retired \$230 million of debt through a tender offer for the 9.25% notes due April 1, 2002. Additionally, Boeing Capital Corporation, a corporation wholly owned by the Company, issued \$225 million of debt in 1997.
- (g) Total funding of the ShareValue Trust was \$1.15 billion; however, a portion of the funding was accomplished through the transfer of treasury shares and the issuance of new shares.

Capital Resources

The Company has long-term debt obligations of \$6.1 billion, which are unsecured. Approximately \$600 million matures in each of 1998 and 1999, and the balance has an average maturity of 15 years. Total long-term debt as of year-end 1997 amounted to 32% of total capital (shareholders' equity plus borrowings). The Company has substantial additional long-term borrowing capability. Revolving credit line agreements with a group of major banks, totaling \$3.24 billion, remain available but unused.

The Company believes its internally generated liquidity, together with access to external capital resources, will be sufficient to satisfy existing commitments and plans, and to provide adequate financial flexibility to take advantage of potential strategic business opportunities should they arise.

Contingent Items

The Company is subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. Based on in-depth studies, expert analyses and legal reviews, the Company routinely assesses its contingencies, obligations and commitments to clean up sites, including assessments of the probability of recoveries from other responsible parties who have and have not agreed to a settlement and recoveries from insurance carriers. The Company's policy is to immediately recognize identified exposures related to environmental cleanup sites based on conservative estimates of investigation, cleanup and monitoring costs to be incurred. The costs incurred in connection with such activities have not had a material impact on the Company's financial position. Based on all known facts and expert analyses, the Company believes it is not reasonably likely that identified environmental contingencies will result in a materially adverse impact on the Company's future financial position or operating results and cash flow trends.

Accidents involving aircraft manufactured by the Company often result in legal proceedings and in extensive investigations regarding design and production issues. The Company maintains an ongoing comprehensive process for conducting safety-related studies and investigations, both internally and in conjunction with regulatory authorities. Provisions are made for all warranty and related commitments of the Company, and most significant legal proceedings are related to matters covered by insurance.

In 1991 the U.S. Navy notified the Company and General Dynamics Corporation (the Team) that it was terminating for default the Team's contract for development and initial production of the A-12 aircraft. The Team filed a legal action to contest the Navy's default termination, to assert its rights to convert the termination to one for "the convenience of the Government," and to obtain payment for work done and costs incurred on the A-12 contract but not paid to date. At December 31, 1997, inventories included approximately \$581 million of recorded costs on the A-12 contract, against which the Company has established a loss provision of \$350 million. The amount of the provision, which was established in 1990, was based on the Company's belief, supported by an opinion of outside counsel, that the termination for default would be converted to a termination for convenience, that the Team would establish a claim for contract adjustments for a minimum of \$250 million, that there was a range of reasonably possible results on termination for convenience, and that it was prudent to provide for what the Company then believed was the upper range of possible loss on termination for convenience, which was \$350 million.

On December 19, 1995, the U.S. Court of Federal Claims ordered that the Government's termination of the A-12 contract for default be converted to a termination for convenience of the Government. On December 13, 1996, the court issued an opinion confirming its prior no-loss adjustment and no-profit recovery order. On December 5, 1997, the Court issued an opinion confirming its preliminary holding that plaintiffs were entitled to certain adjustments to the contract funding, increasing the plaintiffs' possible recovery to \$1,200 million, and on February 20, 1998, the Court issued an opinion and order determining that plaintiffs were entitled to be paid that amount, plus statutory interest from June 26, 1991, until paid.

Although the Government has appealed the resulting judgment, the Company believes the judgment will be sustained. Final resolution of the A-12 litigation will depend on such appeals and possible further litigation, or negotiations, with the Government. If sustained, however, the damages judgment, including interest, would result in pretax income that would more than offset the loss provision established in 1990.

On October 31, 1997, a federal securities lawsuit was filed against the Company in the U.S. District Court for the Western District of Washington, in Seattle. The lawsuit names as defendants the Company and three of its executive officers. Additional lawsuits of a similar nature have been filed. The plaintiffs in each lawsuit seek to represent a class of purchasers of Boeing stock between July 21, 1997, and October 22, 1997, (the "Class Period"), including recipients of Boeing stock in the McDonnell Douglas merger. July 21, 1997, was the date on which the Company announced its second quarter results, and October 22, 1997, was the date on which the Company announced charges to earnings associated with production problems being experienced on commercial aircraft programs. The lawsuits generally allege that the defendants desired to keep the Company's share price as high as possible in order to ensure that the McDonnell Douglas shareholders would approve the merger and, in the case of two of the individual defendants, to benefit directly from the sale of Boeing stock during the Class Period. The plaintiffs seek compensatory damages and treble damages. The Company believes that the allegations are without merit and that the outcome of these lawsuits will not have a material adverse effect on its earnings, cash flow or financial position.

Year 2000 Date Conversion

The Year 2000 issue exists because many computer systems and applications use two-digit date fields to designate a year. As the century date change occurs, date-sensitive systems may recognize the year 2000 as 1900, or not at all. This inability to recognize or properly treat the year 2000 may cause systems to process financial and operational information incorrectly.

The Company recognized this challenge early, and major business units started work in 1993. The Company's Year 2000 strategy includes a common companywide focus on policies, methods and correction tools, and coordination with customers and suppliers. Each operating unit has responsibility for its own conversion, in line with overall guidance and oversight provided by a corporate-level steering committee. Most of the conversion activities are occurring in conjunction with normal sustaining activities.

Conversions are planned to be completed by the end of 1998, and extensive testing will continue into 1999. The Company does not anticipate that internal Year 2000 conversion issues will materially impact operations or operating results.

Market Risk Exposure

The Company has financial instruments that are subject to interest rate risk, principally short-term investments, fixed-rate notes receivable attributable to customer financing, and debt obligations issued at a fixed rate. Historically, the Company has not experienced material gains or losses due to interest rate changes when selling short-term investments or fixed-rate notes receivable. Additionally, the Company uses interest rate swaps to manage exposure to interest rate changes. Based on the current holdings of short-term investments, fixed-rate notes, as well as underlying swaps, the exposure to interest rate risk is not considered to be material. Fixed-rate debt obligations issued by the Company are generally not callable until maturity.

The Company is subject to foreign currency exchange rate risk relating to receipts from customers and payments to suppliers in foreign currencies. As a general policy, the Company substantially hedges foreign currency commitments of future payments and receipts by purchasing foreign currency-forward contracts. As of December 31, 1997, the notional value of such derivatives was \$535 million, with a net unrealized gain of \$5 million. Less than one percent of receipts and expenditures are contracted in foreign currencies, and the Company does not consider the market risk exposure relating to currency exchange to be material.

COMMERCIAL AIRCRAFT BUSINESS ENVIRONMENT AND TRENDS

The worldwide market for commercial jet aircraft is predominantly driven by long-term trends in airline passenger traffic. The principal factors underlying long-term traffic growth are sustained economic growth, both in developed and emerging countries, and political stability. Demand for the Company's commercial aircraft is further influenced by airline industry profitability, world trade policies, government-to-government relations, environmental constraints imposed upon aircraft operations, technological changes, and price and other competitive factors.

Global Economic and Passenger Traffic Trends

As the world economy has improved in this decade, airline passenger traffic has been increasing. For the five-year period 1993-1997, the average annual growth rate for worldwide passenger traffic was approximately 5.7%. The Company's 20-year forecast of the average long-term growth rate in passenger traffic is approximately 5.0% annually for the first half of the 20-year forecast period, and 4.9% annually for the balance, based on projected average worldwide annual economic real growth of 3.0% over the period.

Based on global economic growth projections over the long term, and taking into consideration increasing utilization levels of the worldwide aircraft fleet and requirements to replace older aircraft, the Company projects the total commercial jet aircraft market over the next 20 years at more than \$1,000 billion in 1997 dollars.

Asia-Pacific Economies

Results in 1997 for Asia-Pacific airlines were mixed. Air travel was lower in a number of regional markets. Passenger load factors declined and some airlines reported net losses. Uncertainty increased during the latter half of 1997 as currency devaluations and continuing turmoil in Asia's financial markets dimmed the region's near-term prospects for growth. The International Monetary Fund has intervened and funded rescue plans for those nations at greatest risk of financial failure. With prospects for air travel growth in the region lower than most forecasts, airlines are currently evaluating the number and timing of capacity additions contracted to deliver during the next several years.

Airline Profitability

Through a combination of passenger traffic growth, improved revenue, lower fuel costs and aggressive cost control measures, the airline industry as a whole showed significant improvement in operating profitability and net earnings over the past few years. The industry realized a substantial positive level of earnings in 1995 and 1996 and an even greater level in 1997. The outlook for passenger traffic growth in 1998 is generally positive especially in the United States, Europe, Latin America and over the Atlantic. Continued profit improvement depends on sustained economic growth, limited wage increases, and capacity additions in line with traffic increases.

Airline Deregulation

Worldwide, the airline industry has experienced progressive deregulation of domestic markets and increasing liberalization of international markets. Twenty years ago virtually all air travel took place within a framework of domestic and international regulatory oversight. Since then, several countries, most notably the United States, Australia and the countries in Western Europe, have eliminated restrictive regulations for domestic airline markets and promoted a more open-market climate for international services. Currently, about one-half of all air travel takes place within an open-market environment. These trends are expected to continue, but at varying rates in different parts of the world.

Liberalization of government regulations together with increased aircraft range capabilities is giving airlines greater freedom to pursue optimal fleet-mix strategies. This increased flexibility allows the airlines to accommodate traffic growth by selecting the best mix of flight frequencies and aircraft size and capabilities for their route systems. In intercontinental markets, more liberal bilateral air service agreements provide an important stimulus to opening new city-pair markets. In this environment, intercontinental market demand is better served by increasing flight frequency than by deploying aircraft with larger capacity. In parallel with regulatory liberalization, developments in improving aircraft range performance will continue to allow airlines to expand the number of direct city-to-city routes, thus reducing the reliance on indirect routes through central hubs that require larger capacity aircraft.

Industry Competitiveness and World Trade Policies

Since the 1970s, the Company has achieved more than a 60% share of the available commercial jet aircraft market. The Company has an aggressive competitor seeking to increase market share. This market environment has resulted in intense pressures on pricing and other competitive factors. The Company's focus on improving processes and other cost reduction efforts is intended to enhance its ability to pursue pricing strategies that enable the Company to maintain market share at satisfactory margins.

The Company's extensive customer support services network for airlines throughout the world also plays a key role in maintaining high customer satisfaction. On-line access is available to all airline customers for engineering drawings, parts lists, service bulletins and maintenance manuals.

Over the past five years, sales outside the United States have accounted for approximately 64% of the Company's total Commercial Aircraft sales; approximately 55% of the Commercial Aircraft contractual backlog at year-end 1997 was with customers based outside the United States. Continued access to global markets is extremely important to the Company's future ability to fully realize its sales potential and projected long-term investment returns.

Governments and companies in Asia and the former Soviet Union are seeking to develop or expand aircraft design and manufacturing capabilities by teaming arrangements with each other or current manufacturers. The Company continues to explore ways to expand its global presence in this environment.

In 1992 the U.S. Government and the European Community announced agreement on interpreting the commercial aircraft code of the General Agreement on Tariffs and Trade (GATT). The 1992 agreement bans government production subsidies and limits development support in the form of loans to 33% of development costs. The Company prefers a ban on all government subsidies for commercial airplane programs, but the controls embodied in the 1992 agreement are considered important in limiting future government subsidies to Airbus Industrie, the Company's primary competitor. The recent steps taken by the four Airbus partners to transform the Airbus consortium into a commercial company may remove Airbus operations from government control and influence and increase financial transparency.

The World Trade Organization (WTO), based in Geneva, was inaugurated in 1995. The WTO promotes open and nondiscriminatory trade among its members and administers an improved subsidies code, applicable to all members, that provides important protections against injurious subsidies by governments, as well as improved dispute settlement procedures to resolve disagreements among nations. The 1992 bilateral United States - European Union agreement and the WTO subsidies code constitute the basic limits on government support of development costs.

In spite of the current Asian economic difficulties, Company forecasts indicate that the airlines of China represent a significant potential for commercial jet aircraft orders over the next 20 years. However, China is not currently a member of the WTO, and the Company believes the accession of China to the WTO and the granting of permanent Most-Favored-Nation trading status by the U.S. Government would help ensure an open market. If government and trade relations between the United States and China deteriorate significantly, the Company's ability to sell commercial aircraft to airlines in China could be severely constrained.

Airlines of Russia and other states of the former Soviet Union operate a limited but increasing number of western-built aircraft. Because of high customs duties, a shortage of foreign exchange, and legal and financing constraints, new aircraft orders have not been reaching their potential. In January 1996, the U.S. Government reached a trade agreement with the Russian Federation that provides for future aircraft tariff reductions. The Company expects that the airlines and aircraft manufacturing industry of this region will eventually be integrated into the international economy.

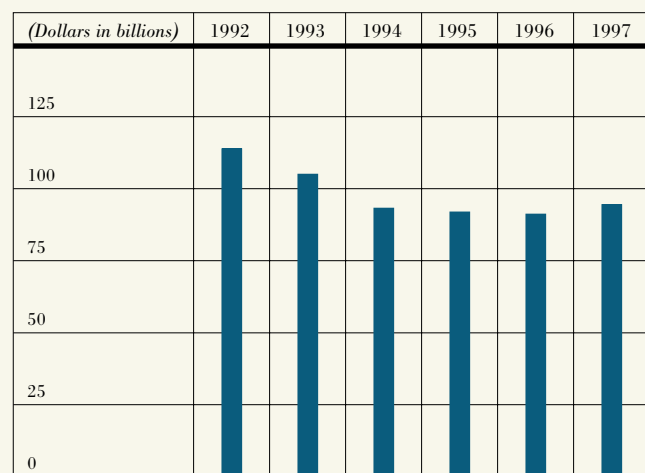
Summary

Although near-term market uncertainties remain, particularly with respect to the economic situation in certain Asian countries and open market access, the long-term market outlook appears favorable. The Company is well positioned in all segments of the commercial jet aircraft market, and intends to remain the airline industry's preferred supplier through emphasis on product offerings and customer service that provide the best overall value in the industry.

INFORMATION, SPACE AND DEFENSE SYSTEMS BUSINESS ENVIRONMENT AND TRENDS

The Company's acquisition of the defense and space units of Rockwell and the merger with McDonnell Douglas have created a large and diversified business segment in Information, Space and Defense Systems. Boeing is the world's largest producer of military aircraft, the principal contractor for NASA, and the second largest U.S. Department of Defense (DoD) supplier. The Company's programs are well balanced between current production and upgrade activities and major development programs with large potential production quantities.

Procurement budget – DoD and NASA:



General Environment

The major trends that continue to shape the current Information, Space and Defense Systems business environment include significant but relatively flat defense and NASA budgets; rapid expansion of information and communication technologies; the need for low cost, assured access to space; and a convergence between military, civil and commercial markets.

The DoD remains the principal customer of this business segment, and DoD procurement funding levels are expected to remain essentially flat on an inflation-adjusted basis. The Company's DoD programs are subject to uncertain future funding levels which can result in the stretchout or termination of some programs. Congressional adoption of proposed DoD procurement reforms is believed to be important to the future funding levels available for the Company's defense products.

NASA's budget is also expected to remain relatively flat over the next several years. To generate additional procurement funds, NASA is likely to continue to outsource many of its operational functions.

The information and communication market addressed by this business segment is projected by industry analysts to double within the next ten years. Much of this growth is identified with new communications satellite constellations. During this period, industry forecasts indicate up to 2,000 satellites will need to be launched into space. This will increase the need for low-cost launch capabilities. The majority of the projected growth in information and communication will be in the commercial marketplace, and the Government's requirements are expected to be increasingly met by these commercial systems.

A modest decline is forecast for the defense and space budgets of other countries. Current economic problems in certain Asian countries have resulted in the deferral of some modernization investments in defense. Sales of defense systems to allies in the Persian Gulf region will continue to be paced by regional tensions and oil revenues. In Europe, defense and space budgets are projected to decline gradually.

Overall the Company faces strong competition in all of its market segments. The acquisition and merger consolidations among U.S. aerospace companies have resulted in three principal prime contractors for the DoD and NASA, including the Company. While there may be some further niche acquisitions at the prime contractor level, the major area for further consolidation is likely to be among subcontractors to the primes. Lockheed Martin and Raytheon are the Company's primary U.S. competitors for this business segment, although in certain commercial markets Motorola and Hughes Space and Communications are also principal competitors. As a result of the extensive consolidation in the defense and space industry, the Company and its major competitors are also partners or major suppliers to each other on various programs.

The consolidation and rationalization of the European defense and space companies has been proceeding for several years, mainly within individual nations. Cross-border mergers in the form of joint ventures have been largely confined to individual market segments, such as satellites or missiles. Encouragement by the governments of France, Germany and the United Kingdom may result in broader mergers to create larger European companies. Internationally, the largest European companies compete in many of the same market segments with the Company's products and services. At the same time, these companies are also potential teaming partners.

Business Unit Product Lines

The Aircraft and Missiles business unit has major products in tactical fighters, trainers, helicopters, military transports, tankers, strike missiles and special purpose airplanes, for both the U.S. and foreign governments. The basic strategy is to provide a competitive product in every selected market segment. This business unit has several programs that are now in production for the DoD, such as the C-17 Transport, F/A-18 E/F fighter, T-45 Trainer and V-22 Tiltrotor. Other programs include those that are still in development, such as the F-22 Fighter and RAH-66 helicopter, or in competitive development, such as the Joint Strike Fighter and Joint Air-to-Surface Standoff Missile (JASSM). Despite expected modest declines in global defense budgets, international demand for military aircraft and missiles remains generally positive. Foreign sales approved by the U.S. Government are extending some product lines, such as the F/A-18 C/D and F-15 fighters, Harpoon missiles and the AH-64 and CH-47 helicopters. Based on these trends, moderate growth in this business unit is expected.

The Space Systems business unit's principal focuses are space transportation systems, the International Space Station (ISS), and missile defense programs. There is significant growth potential in space transportation and in missile defense programs. The basic strategy is to provide a full family of space launch services, to continue as the prime contractor for ISS throughout its lifetime in orbit, and to gain a large role in missile defense programs. The most significant market force affecting our Space Systems business unit is the projected growth in the commercial launch services market. This business unit is well positioned with the Sea Launch and the Delta family of commercial launch vehicles, and is the prime contractor for NASA's Space Shuttle. The business segment's future in missile defense is dependent on programs such as National Missile Defense, Ground Based Interceptor, Space Based Infrared System, and Patriot III missile upgrades.

The Information and Communications Systems business unit is a participant in both government and commercial markets. Global information and communications industry revenues totaled \$1.8 trillion in 1996 and are forecast to grow to \$2.7 trillion by 2001. Satellite-based wireless services for business and residential users are expected to grow at a compound annual rate of 7 percent between 1997 and 2012. Over the same time period, corporate network use is forecast at a compound annual growth rate of 8 percent. The strategy for

this business unit is to make significant penetration of these commercial markets, which will also provide opportunities for future business with the U.S. Government. Potential near-term business opportunities include being the prime contractor for Teledesic, a privately funded company whose mission is to build a broadband "Internet-in-the-Sky" using a constellation of several hundred low-Earth-orbit satellites; and providing Aviation Information Services to commercial airlines for passenger entertainment and other services. Government programs of the Information and Communications business unit include information systems such as AWACS, Nimrod 2000, command and control systems, and global positioning satellite systems such as GPS II.

Three general product trends shape the environment of the Company's Information, Space and Defense Systems business segment: low-cost affordable systems, more rapid product development, and integration of traditional products into higher-level system networks. The Company's Phantom Works unit serves the pivotal role of developing innovative processes and technologies to address these challenges. It also has the responsibility to identify and win technology contracts in high-leverage areas and to pursue new government programs in the early stages of concept development and demonstration.

STRATEGIC INVESTMENTS FOR LONG-TERM VALUE

Over the past several years, the Company has made significant internal investments to meet future airline product requirements, to aggressively pursue new Information, Space and Defense Systems business opportunities, and to achieve production efficiencies. Although constraining earnings and requiring substantial resources in the near term, these investments are building long-term value by streamlining operations and positioning the Company to maintain its leadership position.

New Product Development

The Company continually evaluates opportunities to improve current aircraft models, and assesses the marketplace to ensure that its family of commercial jet aircraft is well positioned to meet future requirements of the airline industry. The fundamental strategy is to maintain a broad product line responsive to changing market conditions by maximizing commonality among the Boeing family of commercial aircraft. Additionally, the Company is determined to continue to lead the industry in customer satisfaction by offering products with the highest standards of quality, safety, technical excellence, economic performance and in-service support.

While product development activities are principally oriented toward maintaining and enhancing the competitiveness of the Boeing subsonic fleet through a variety of derivatives, the Company is also involved in studying the technological and economic issues associated with development of commercial supersonic aircraft and other basic aerodynamic and materials technology research.

Opportunities for major new U.S. Government Information, Space and Defense Systems programs in the near term are relatively limited; however, the Company is aggressively seeking ways to capitalize on its expanded program base and its competitive strength with regard to military, space, and information technologies.

New business opportunities being pursued or studied include both military and commercial applications. On the military side, the Company continues to assess potential applications using the Company's commercial aircraft, particularly the 767 and 737. In the commercial space arena, the Company is leading the Sea Launch team to offer highly automated commercial satellite launching from a seagoing launch platform. First launch is currently scheduled for late 1998.

In communication activities, the Company is studying several potential business opportunities including developing and marketing a phased-array communications antenna for a variety of mobile commercial and military system applications. Initial application of this product would be for reception of Direct Broadcast Satellite (DBS) television on in-flight commercial aircraft. The Company is studying methods to provide a two-way voice and data wholesale communications service to "in-country" distributors via a space-based switching network of low-Earth-orbit satellites.

Major Process Improvements

The Company remains strongly committed to becoming a world-class leader in all aspects of its business and to maintaining a strong focus on customer needs, including product capabilities, technology, in-service economics and product support. Major long-term productivity gains are being aggressively pursued, with substantial resources invested in education and training, restructuring of processes, new technology, and organizational realignment.

The 777, the Next-Generation 737, the Joint Strike Fighter, and other recent commercial and government developmental programs included early commitment of resources for integrated product teams, design interface with customer representatives, use of advanced three-dimensional digital product definition and digital pre-assembly computer applications, and increased use of automated manufacturing processes. Although these measures have required significant current investments, substantial long-term benefits are anticipated from reductions in design changes and rework and improved quality of internally manufactured and supplier parts.

A major initiative, referred to as Define and Control Airplane Configuration/Manufacturing Resource Management (DCAC/MRM), has been launched to greatly simplify and streamline commercial aircraft configuration control, production management, and related systems. Organizations have been realigned and substantial resources have been dedicated to ensure the new processes and systems are successfully implemented over the next few years.

The Information, Space and Defense Systems Group (ISDS) continues to aggressively pursue important process improvements through integrated product teams that provide cost-effective solutions and maintain technological superiority. Phantom Works, the advanced research and development organization of ISDS, focuses on improving ISDS's competitive position through innovative technologies, improved processes and creation of new products.

The Company is continuing to assess potential opportunities for improved utilization and consolidation of facilities across all parts of the Company. Future decisions regarding facilities conversions or consolidations will be based on long-term business objectives. Within the Information, Space and Defense Systems segment, any major restructuring actions will be contingent on demonstration of cost savings for U.S. Government programs and the Company.

SEGMENT INFORMATION

The Company has adopted Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

The Company is organized based on the products and services that it offers. Under this organizational structure, the Company operates in two principal areas: commercial aircraft, and information, space and defense systems. *Commercial Aircraft* operations principally involve development, production and marketing of commercial jet aircraft and providing related support services, principally to the commercial airline industry worldwide. *Information, Space and Defense Systems* 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; space and missile systems; satellite launching vehicles; rocket engines; and specialized information services. Although some Information, Space and Defense Systems products are contracted in the commercial environment, the primary customer is the U.S. Government. No single product line in the Information, Space and Defense Systems segment represented more than 10% of consolidated revenues, operating profits or identifiable assets. The *Customer and Commercial Financing, Other* segment is primarily engaged in the financing of commercial and private aircraft, commercial equipment, and real estate.

The Commercial Aircraft segment is subject to both operational and external business-environment risks. Operational risks that can seriously disrupt the Company's ability to make timely delivery of its commercial jet aircraft and meet its contractual commitments include execution of internal performance plans, product performance risks associated with regulatory certifications of the Company's commercial aircraft by the U.S. Government and foreign governments, other regulatory uncertainties, collective bargaining labor disputes, and performance issues with key suppliers and subcontractors. While the Company's principal operations are in the United States, Canada, and Australia, some key suppliers and subcontractors are located in Europe and Japan. External business-environment risks include adverse governmental export and import policies, factors that result in significant and prolonged disruption to

air travel worldwide, and other factors that affect the economic viability of the commercial airline industry. Examples of factors relating to external business-environment risks include the volatility of aircraft fuel prices, global trade policies, worldwide political stability and economic growth, and a competitive industry structure which results in market pressure to reduce product prices.

In addition to the foregoing risks associated with the Commercial Aircraft segment, the Information, Space and Defense Systems segment is subject to changing priorities or reductions in the U.S. Government defense and space budgets, and termination of government contracts due to unilateral government action (termination for convenience) or failure to perform (termination for default). Civil, criminal or administrative proceedings involving fines, compensatory and treble damages, restitution, forfeiture and suspension or debarment from government contracts may result from violations of business and cost classification regulations on U.S. Government contracts.

As of December 31, 1997, the Company's principal collective bargaining agreements were with the International Association of Machinists and Aerospace Workers (IAM) representing 28% of employees (current agreements expiring September 1999, October 1999, and May 2001), Seattle Professional Engineering Employees Association (SPEEA) representing 12% of employees (current agreements expiring December 1999), the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) representing 6% of employees (current agreements expiring June 1999, September 1999, and April 2000), and Southern California Professional Engineering Association (SCPEA) representing 2% of employees (current agreement expiring March 2001).

Sales by geographic area consisted of the following:

<i>(Dollars in millions)</i>			
Year ended December 31,	1997	1996	1995
Asia, other than China	\$11,437	\$ 8,470	\$ 7,059
China	1,265	951	754
Europe	7,237	4,198	4,087
Oceania	1,078	821	658
Africa	192	156	154
Western Hemisphere, other than the United States	228	466	734
	21,437	15,062	13,446
United States	24,363	20,391	19,514
Total sales	\$45,800	\$35,453	\$32,960

Information, Space and Defense Systems sales were approximately 19%, 29% and 38% of total sales in Europe for 1997, 1996 and 1995, respectively, and were approximately 19%, 22% and 26% of total sales in Asia excluding China for the same respective years. Exclusive of these amounts, Information, Space and Defense Systems sales were principally to the U.S. Government.

The information in the following tables is derived directly from the segments' internal financial reporting used for corporate management purposes. The expenses, assets and liabilities attributable to corporate activity are not allocated to the operating segments. Less than 2% of operating assets are located outside of the United States.

Unallocated costs include goodwill amortization, capitalized interest amortization, certain unallocated actuarial costs (including \$600 million in 1995 for a special retirement charge described in Note 3 on page 56), and corporate costs not allocated to other internal reporting entities. Unallocated assets primarily consist of cash and short-term investments, prepaid pension expense, goodwill, deferred tax assets, and capitalized interest. Unallocated liabilities include various accrued employee compensation and benefit liabilities including accrued retiree health care, taxes payable, and debentures and notes payable. Unallocated capital expenditures and depreciation relate primarily to shared services assets. Sales are not recorded for inter-segment transactions.

Losses from operations for 1997 and 1995 include the impact of Douglas Products Division valuation adjustment and MD-11 accounting charge described in Note 3 on page 56.

<i>(Dollars in millions)</i> Year ended December 31,	Net earnings (loss)			Revenues			Research and development		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
Commercial Aircraft	\$(1,837)	\$ 956	\$(1,280)	\$26,929	\$19,916	\$17,511	\$1,208	\$1,156	\$1,232
ISDS	1,317	1,387	1,312	18,125	14,934	14,849	716	477	442
Other	381	329	355	746	603	600			
Unallocated expense	(216)	(54)	(703)						
Earnings (loss) from operations	(355)	2,618	(316)						
Other income, principally interest	428	388	280						
Interest and debt expense	(513)	(393)	(376)						
ShareValue Trust	99	(133)							
Earnings (loss) before taxes	(341)	2,480	(412)						
Income taxes (benefit)	(163)	662	(376)						
	\$ (178)	\$1,818	\$ (36)	\$45,800	\$35,453	\$32,960	\$1,924	\$1,633	\$1,674

Year ended December 31,	Assets at December 31			Liabilities at December 31			Depreciation and amortization		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
Commercial Aircraft	\$12,763	\$12,484	\$12,923	\$ 6,917	\$ 5,824	\$ 5,249	\$ 570	\$ 605	\$ 629
ISDS	6,597	6,785	5,243	2,379	2,361	1,290	365	299	311
Other	4,716	3,903	4,441	396	286	285	91	110	116
Unallocated	13,948	14,708	9,270	15,379	15,907	12,526	432	252	250
	\$38,024	\$37,880	\$31,877	\$25,071	\$24,378	\$19,350	\$1,458	\$1,266	\$1,306

Year ended December 31,	Capital expenditures, net			Contractual backlog at December 31 (unaudited)		
	1997	1996	1995	1997	1996	1995
Commercial Aircraft	\$ 531	\$336	\$343	\$ 93,788	\$ 86,151	\$73,715
ISDS	463	304	186	27,852	28,022	21,773
Other	1	1	1			
Unallocated	396	330	217			
	\$1,391	\$971	\$747	\$121,640	\$114,173	\$95,488

ISDS = Information, Space and Defense Systems.

Other = Customer and Commercial Financing, Other.

SHAREHOLDER VALUE AS CORPORATE PERFORMANCE MEASURE

Management performance measures are designed to provide a good balance between short-term and long-term measures and financial and non-financial measures to align all decision processes and operating objectives to increase shareholder value over the long term.

Beginning in 1998 the Company implemented a new stock-award compensation plan for executives in place of stock options. Under this plan, rights to receive stock, referred to as performance shares, will be issued to plan participants. An increasing portion of the performance shares awarded will be convertible to shares of common stock as the stock price reaches and maintains certain threshold levels. These threshold stock price levels represent predetermined compound five-year growth rates relative to the stock price at the time the performance shares are granted. Any performance shares not converted to awarded common stock after five years will expire. This plan is intended to increase executive management's focus on improving shareholder value.

During 1996, the Company established a self-sufficient, irrevocable 12-year trust, the "ShareValue Trust," designed to allow all employees to share in the results of increasing shareholder value over the long term. Funding of the ShareValue Trust totaled \$1,150 million in 1996. (See Note 14 to the Consolidated Financial Statements on page 64.) Additional funding of \$550 million was made effective January 1, 1998, because of the merger with McDonnell Douglas Corporation. Potential share appreciation distributions, which are solely the responsibility of the Trust, occur every two years.

Effective first quarter 1998, the Company plans to adopt SFAS No. 123, *Accounting for Stock-Based Award Plans*, which will apply to the performance shares and the ShareValue Trust discussed above, as well as stock options. The combined expense for all share appreciation stock-award plans for 1998 is projected to be in the range of \$120 million after tax. The level of share-based plans expense will increase in subsequent years as additional grants are made. Although expense is recognized, these plans will not impact future cash flow except for the associated tax implications.

THE BOEING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions except per share data)

Year ended December 31,	1997	1996	1995
Sales and other operating revenues	\$45,800	\$35,453	\$32,960
Operating costs and expenses	40,644	29,383	27,370
General and administrative expense	2,187	1,819	1,794
Research and development expense	1,924	1,633	1,674
Special charges	1,400		2,438
Earnings (loss) from operations	(355)	2,618	(316)
Other income, principally interest	428	388	280
Interest and debt expense	(513)	(393)	(376)
ShareValue Trust	99	(133)	
Earnings (loss) before income taxes	(341)	2,480	(412)
Income taxes (benefit)	(163)	662	(376)
Net earnings (loss)	\$ (178)	\$ 1,818	\$ (36)
Earnings (loss) per share			
Basic	\$ (.18)	\$ 1.88	\$ (.04)
Diluted	\$ (.18)	\$ 1.85	\$ (.04)
Cash dividends per share	\$.56	\$.55	\$.50
See notes to consolidated financial statements.			

THE BOEING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in millions except per share data)

December 31,	1997	1996
Assets		
Cash and cash equivalents	\$ 4,420	\$ 5,469
Short-term investments	729	883
Accounts receivable	3,121	2,870
Current portion of customer and commercial financing	261	774
Deferred income taxes	1,765	1,362
Inventories, net of advances and progress billings	8,967	9,151
Total current assets	19,263	20,509
Customer and commercial financing	4,339	3,114
Property, plant and equipment, net	8,391	8,266
Deferred income taxes	15	143
Goodwill	2,395	2,478
Prepaid pension expense	3,271	3,014
Other assets	350	356
	\$38,024	\$37,880
Liabilities and Shareholders' Equity		
Accounts payable and other liabilities	\$11,548	\$ 9,901
Advances in excess of related costs	1,575	1,714
Income taxes payable	298	474
Short-term debt and current portion of long-term debt	731	637
Total current liabilities	14,152	12,726
Accrued retiree health care	4,796	4,800
Long-term debt	6,123	6,852
Shareholders' equity:		
Common shares, par value \$5.00 – 1,200,000,000 shares authorized; Shares issued – 1,000,029,538 and 993,347,933	5,000	4,967
Additional paid-in capital	1,090	920
Treasury shares, at cost – 164,667 and 30,440	(9)	(1)
Retained earnings	8,147	8,896
Unearned compensation	(20)	(22)
ShareValue Trust shares – 26,385,260 and 26,119,702	(1,255)	(1,258)
Total shareholders' equity	12,953	13,502
	\$38,024	\$37,880
See notes to consolidated financial statements.		

THE BOEING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

Year ended December 31,	1997	1996	1995
Cash flows – operating activities:			
Net earnings (loss)	\$ (178)	\$ 1,818	\$ (36)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Special charges	1,400		2,438
ShareValue Trust	(99)	133	
Depreciation	1,354	1,241	1,287
Amortization of goodwill and intangibles	104	25	19
Changes in assets and liabilities –			
Short-term investments	154	(874)	559
Accounts receivable	(251)	182	145
Inventories, net of advances and progress billings	(1,008)	306	(1,400)
Accounts payable and other liabilities	1,490	514	(210)
Advances in excess of related costs	(139)	441	199
Income taxes payable and deferred	(451)	(55)	(692)
Other assets	(272)	(246)	(337)
Accrued retiree health care	(4)	126	163
Net cash provided by operating activities	2,100	3,611	2,135
Cash flows – investing activities:			
Customer and commercial financing – additions	(1,889)	(1,212)	(1,543)
Customer and commercial financing – reductions	1,030	1,482	2,638
Property, plant and equipment, net additions	(1,391)	(971)	(747)
Other		15	9
Net cash provided (used) by investing activities	(2,250)	(686)	357
Cash flows – financing activities:			
New borrowings	232	1,051	701
Debt repayments	(867)	(1,160)	(547)
ShareValue Trust		(891)	
Common shares purchased	(141)	(718)	(337)
Common shares issued	268		
Stock options exercised, other	166	215	147
Dividends paid	(557)	(480)	(434)
Net cash used by financing activities	(899)	(1,983)	(470)
Net increase (decrease) in cash and cash equivalents	(1,049)	942	2,022
Cash and cash equivalents at beginning of year	5,469	4,527	2,505
Cash and cash equivalents at end of year	\$ 4,420	\$ 5,469	\$ 4,527
See notes to consolidated financial statements.			

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Years ended December 31, 1997, 1996 and 1995**(Dollars in millions except per share data)***NOTE 1****Summary of Significant Accounting Policies****Principles of consolidation**

The consolidated financial statements include the accounts of all majority-owned subsidiaries.

Intercompany profits, transactions and balances have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions and estimates that directly affect the amounts reported in the consolidated financial statements. Significant estimates for which changes in the near term are considered reasonably possible and that may have a material impact on the financial statements are addressed in these notes to the consolidated financial statements.

Sales and other operating revenues

Sales under fixed-price-type contracts are generally recognized as deliveries are made or at the completion of contractual billing milestones. For certain fixed-price contracts that require substantial performance over an extended period before deliveries begin, sales are recorded based upon attainment of scheduled performance milestones. Sales under cost-reimbursement contracts are recorded as costs are incurred. Certain U.S. Government contracts contain profit incentives based upon performance relative to predetermined targets. Incentives based on cost performance are recorded currently, and other incentives and fee awards are recorded when the amounts can be reasonably estimated or are awarded. Commercial aircraft sales are recorded as deliveries are made. Income associated with customer financing activities is included in sales and other operating revenues.

Contract and program accounting

Information, Space and Defense Systems segment operations principally consist of performing work under contract, predominantly for the U.S. Government and foreign governments. Cost of sales for such contracts is determined based on the estimated average total contract cost and revenue.

Commercial aircraft programs are planned, committed and facilitated based on long-term delivery forecasts, normally for quantities in excess of contractually firm orders. Cost of sales for the 737, 747, 757, 767 and 777 commercial aircraft programs is determined under the program method of accounting based on estimated average total cost and revenue for the current program quantity. The program method of accounting effectively amortizes or averages tooling and special equipment costs, as well as unit production costs, over the program quantity. Because of the higher unit production costs experienced at the beginning of a new program and the substantial investment required for initial tooling and special equipment, new commercial jet aircraft programs normally have lower operating profit margins than established programs. The initial program quantities for the 777 program and the 737-600/700/800/900 (Next-Generation 737) programs have been established at 400 units, the same initial program quantity as used for the 747, 757 and 767 programs. Deliveries for the 777 program began in 1995, and deliveries for the Next-Generation 737 program began in the fourth quarter of 1997. The estimated program average costs and revenues are reviewed and reassessed quarterly, and changes in estimates are recognized over current and future deliveries constituting the program quantity.

Cost of sales for the MD-80, MD-90 and MD-11 aircraft programs is determined on a specific-unit cost method.

To the extent that inventoriable costs are expected to exceed the total estimated sales price, charges are made to current earnings to reduce inventoried costs to estimated realizable value.

Inventories

Inventoried costs on commercial aircraft programs and long-term contracts include direct engineering, production and tooling costs, and applicable overhead, not in excess of estimated realizable value. In accordance with industry practice, inventoried costs include amounts relating to programs and contracts with long production cycles, a portion of which is not expected to be realized within one year. Commercial spare parts and general stock materials are stated at average cost not in excess of realizable value.

Interest expense

Interest and debt expense is presented net of amounts capitalized. Interest expense is subject to capitalization as a construction-period cost of property, plant and equipment and of commercial program tooling.

Income taxes

Federal, state and foreign income taxes are computed at current tax rates, less tax credits. Taxes are adjusted both for items that do not have tax consequences and for the cumulative effect of any changes in tax rates from those previously used to determine deferred tax assets or liabilities. Tax provisions include amounts that are currently payable, plus changes in deferred tax assets and liabilities that arise because of temporary differences between the time when items of income and expense are recognized for financial reporting and income tax purposes.

Postretirement benefits

The Company's funding policy for pension plans is to contribute, at a minimum, the statutorily required amount to an irrevocable trust. Benefits under the plans are generally based on years of credited service, age at retirement and average of last five years' earnings. The actuarial cost method used in determining the net periodic pension cost is the projected unit credit method.

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid instruments, such as certificates of deposit, time deposits, treasury notes and other money market instruments, which generally have maturities of less than three months.

Short-term investments

Short-term investments, consisting principally of U.S. Government Treasury obligations, are classified as trading securities with unrealized gains and losses reflected in other income.

Property, plant and equipment

Property, plant and equipment are recorded at cost, including applicable construction-period interest, and depreciated principally over the following estimated useful lives: new buildings and land improvements, from 20 to 45 years; machinery and equipment, from 3 to 13 years. The principal methods of depreciation are as follows: buildings and land improvements, 150% declining balance; machinery and equipment, sum-of-the-years' digits.

Goodwill

Goodwill, representing the excess of acquisition costs over the fair value of net assets of businesses purchased, is being amortized by the straight-line method over 30 years. Recoverability of the unamortized goodwill balance is based upon assessment of related operational cash flows.

Goodwill at December 31 consisted of the following:

	1997	1996
Goodwill	\$2,486	\$2,486
Less cumulative amortization	(91)	(8)
	<u>\$2,395</u>	<u>\$2,478</u>

NOTE 2**Mergers and Acquisitions****Merger with McDonnell Douglas Corporation**

Effective August 1, 1997, McDonnell Douglas Corporation merged with the Company through a stock-for-stock exchange in which 1.3 shares of Company stock were issued for each share of McDonnell Douglas stock outstanding. The Company issued 277.3 million shares in connection with the merger. The combined company is operating under the name of The Boeing Company.

The merger is accounted for as a pooling of interests. Accordingly, except for adjustments to reflect conformed accounting policies, the historical results of operations of the two companies have been combined, and no acquisition revaluation or goodwill was recorded.

The merger was subject to approval by the United States Federal Trade Commission and the European Commission. Future requirements or obligations associated with obtaining these approvals are not expected to have a material impact on future operations or liquidity of the Company.

The following table presents sales and net earnings for the periods presented. The conforming accounting adjustments include the following: (1) the percentage-of-completion method of recognizing sales and earnings for fixed-price contracts is changed from the cost-to-cost basis of revenue recognition used by McDonnell Douglas to the delivery basis of revenue recognition; and (2) the McDonnell Douglas classification of income associated with cash and short-term investments and gains on sale of assets is changed from "Sales and other operating revenues" to "Other income, principally interest."

NOTE 2 (CONTINUED)

Year ended December 31,	1996	1995
Sales and other operating revenues		
The Boeing Company	\$22,681	\$19,515
McDonnell Douglas Corporation	13,834	14,332
Intercompany sales elimination	(601)	(546)
Conforming accounting adjustments	(461)	(341)
Combined	\$35,453	\$32,960
Net earnings (loss)		
The Boeing Company	\$ 1,095	\$ 393
McDonnell Douglas Corporation	788	(416)
Conforming accounting adjustments, net of tax	(65)	(13)
Combined	\$ 1,818	\$ (36)

The conforming accounting adjustments have also resulted in the following changes applicable to the McDonnell Douglas balance sheet accounts: an increase in current deferred tax assets; a decrease in inventories, billings in excess of related costs, and retained earnings; and conformity to a classified balance sheet separating current and non-current balances. Cash dividends declared by McDonnell Douglas totaled \$50, \$104 and \$90 for the years ended December 31, 1997, 1996 and 1995, respectively.

Acquisition of Rockwell Aerospace and Defense Business
Effective December 6, 1996, the Company acquired Rockwell's aerospace and defense business by issuing 9.2 million shares of common stock valued at \$875 and assuming debt valued at \$2,180. This transaction has been accounted for under the purchase method. The assets and liabilities have been recorded at fair value with excess purchase price recorded as goodwill.

NOTE 3**Special Charges****Douglas Products Division valuation adjustment**

In the fourth quarter of 1997, the Company completed an assessment of the financial impact of its post-merger strategy decisions related to its McDonnell Douglas Corporation commercial aircraft product lines and recorded a special pretax charge of \$1,400 relative to these decisions. The charge principally represents an inventory valuation adjustment based on post-merger assessments of the market conditions and related

program decisions and commitments. Also included in the charge were valuation adjustments in connection with customer financing assets. The Douglas Products Division programs currently in production are the MD-11 trijet and the MD-80 and MD-90 twinjets. Additionally, the MD-95 twinjet, now referred to as the 717 model program, is currently in development, with first delivery scheduled for 1999. The MD-80 and MD-90 twinjets will continue to be produced only through 1999, the MD-11 trijet market opportunities continue to be principally limited to the freighter version, and the 717 program has been restructured to take advantage of the longer-term market opportunities currently projected for a 100-seat aircraft.

MD-11 accounting charge

Effective October 1, 1995, the Company changed its accounting for the MD-11 program to the specific-unit cost method from the program method of accounting described in Note 1, and accordingly revalued the MD-11 program inventory to be consistent with the specific-unit cost method. This revaluation resulted in a non-cash pretax charge to operations of \$1,838 in the fourth quarter of 1995.

Special retirement program expense

A special retirement program was offered during the first half of 1995 to encourage early retirements, resulting in a pretax charge of \$600.

NOTE 4**Earnings per Share**

The weighted average number of shares outstanding (in millions) used to compute basic earnings per share were 970.1, 968.7 and 979.5 for the years ended December 31, 1997, 1996 and 1995, respectively, and for computing diluted earnings per share were 970.1, 981.9 and 979.5 for the same respective years. Basic earnings per share are calculated based on the weighted average number of shares outstanding, excluding the outstanding shares held by the ShareValue Trust. Diluted earnings per share are calculated based on the same number of shares plus additional shares representing stock distributable under stock-based plans computed using the treasury stock method. Because 1997 and 1995 results reflect a net loss from continuing operations, basic and diluted earnings per share are calculated based on the same weighted average number of shares outstanding. The implementation of Statement of Financial Accounting Standards No. 128, *Earnings per Share*, did not have a material impact on the financial statements.

NOTE 5**Accounts Receivable**

Accounts receivable at December 31 consisted of the following:

	1997	1996
U.S. Government contracts	\$2,053	\$2,159
Other	1,068	711
	<u>\$3,121</u>	<u>\$2,870</u>

Accounts receivable included the following as of December 31, 1997 and 1996, respectively: amounts not currently billable of \$587 and \$354 relating primarily to sales values recorded upon attainment of performance milestones that differ from contractual billing milestones and withholds on U.S. Government contracts (\$161 and \$102 not expected to be collected within one year); \$341 and \$291 relating to claims and other amounts on U.S. Government contracts subject to future settlement (\$333 and \$285 not expected to be collected within one year); and \$62 and \$31 of other receivables not expected to be collected within one year.

NOTE 6**Inventory**

Inventories at December 31 consisted of the following:

	1997	1996
Commercial aircraft programs and long-term contracts in progress	\$ 26,566	\$ 23,291
Commercial spare parts, general stock materials and other	1,869	1,476
	<u>28,435</u>	<u>24,767</u>
Less advances and progress billings	(19,468)	(15,616)
	<u>\$ 8,967</u>	<u>\$ 9,151</u>

As of December 31, 1997, there were no significant excess deferred production costs (inventory production costs incurred on in-process and delivered units in excess of the estimated average cost of such units determined as described in Note 1) or unamortized tooling costs not recoverable from existing firm orders for commercial programs other than the 777 and the Next-Generation 737 programs. The program quantity for the 777 and the Next-Generation 737 programs for determining cost of sales based on estimated average total cost (including inventory production costs and tooling) and revenue has been established at 400 units.

Inventory costs at December 31, 1997, included unamortized tooling of \$2,678 and \$809 relating to the 777 and Next-Generation 737 programs, and excess deferred production costs of \$2,384 relating to the 777 program. In the third quarter of 1997, a charge of \$700 was recorded, representing the amount the Next-Generation 737 total program costs of sales was estimated to exceed total program revenues for the initial program quantity of 400 units. As a result of this charge, there were no Next-Generation 737 excess deferred production costs as of December 31, 1997. Inventory costs at December 31, 1996, included unamortized tooling of \$3,159 and \$668 relating to the 777 and Next-Generation 737 programs, and excess deferred production costs of \$2,488 relating to the 777 program. It is estimated that \$1,125 of the 777 program unamortized tooling and excess deferred production costs as of December 31, 1997, will be recovered from firm orders received after December 31, 1997. As of December 31, 1997, 233 777s were under firm contract, and 104 777s had been delivered. Next-Generation 737 program unamortized tooling costs are estimated to be fully recovered from firm orders.

Interest capitalized as construction-period tooling costs amounted to \$33, \$30 and \$33 in 1997, 1996 and 1995, respectively.

As of December 31, 1997 and 1996, inventory balances included \$231 subject to claims or other uncertainties primarily relating to the A-12 program.

The estimates underlying the average costs of deliveries reflected in the inventory valuations may differ materially from amounts eventually realized for the reasons outlined in Note 21.

NOTE 7**Customer and Commercial Financing**

Customer and commercial financing at December 31 consisted of the following:

	1997	1996
Aircraft financing		
Notes receivable	\$ 651	\$ 334
Investment in sales-type/ financing leases	1,646	1,605
Operating lease equipment, at cost, less accumulated depreciation of \$254 and \$206	1,289	868
Commercial equipment financing		
Notes receivable	313	478
Investment in sales-type/ financing leases	407	358
Operating lease equipment, at cost, less accumulated depreciation of \$96 and \$106	502	395
Less valuation allowance	(208)	(150)
	<u>\$4,600</u>	<u>\$3,888</u>

Financing for aircraft is collateralized by security in the related asset, and historically the Company has not experienced a problem in accessing such collateral. The operating lease aircraft category includes new and used jet and commuter aircraft, spare engines and spare parts.

The components of investment in sales-type/financing leases at December 31 were as follows:

	1997	1996
Minimum lease payments receivable	\$ 2,709	\$ 2,735
Estimated residual value of leased assets	519	589
Unearned income	(1,220)	(1,361)
	<u>\$ 2,008</u>	<u>\$ 1,963</u>

Scheduled payments on customer and commercial financing are as follows:

Year	Principal Payments on Notes Receivable	Sales-type/ Financing Lease Payments Receivable	Operating Lease Payments Receivable
1998	\$272	\$ 312	\$214
1999	91	300	164
2000	70	255	129
2001	64	246	108
2002	60	216	97
Beyond 2002	407	1,380	878

The Company has entered into interest rate swaps with third-party investors whereby the interest rate terms differ from the terms in the original receivable. These interest rate swaps related to \$64 of customer financing receivables as of December 31, 1997. Interest rate swaps on financing receivables are settled on the same dates interest is due on the underlying receivables.

Interest rates on fixed-rate notes ranged from 4.00% to 15.67%, and effective interest rates on variable-rate notes ranged from 0.40% to 1.25% above the London Interbank Offered Rate (LIBOR).

Sales and other operating revenues included interest income associated with notes receivable and sales-type/financing leases of \$217, \$195 and \$296 for 1997, 1996 and 1995, respectively.

The valuation allowance is subject to change depending on estimates of collectability and realizability of the customer financing balances.

NOTE 8**Property, Plant and Equipment**

Property, plant and equipment at December 31 consisted of the following:

	1997	1996
Land	\$ 530	\$ 539
Buildings	8,133	7,883
Machinery and equipment	9,940	9,778
Construction in progress	691	525
	19,294	18,725
Less accumulated depreciation	(10,903)	(10,459)
	<u>\$ 8,391</u>	<u>\$ 8,266</u>

Depreciation expense was \$1,266, \$1,132 and \$1,172 for 1997, 1996 and 1995, respectively. Interest capitalized as construction-period property, plant and equipment costs amounted to \$28, \$28 and \$32 in 1997, 1996 and 1995, respectively.

Rental expense for leased properties was \$308, \$242 and \$204 for 1997, 1996 and 1995, respectively. These expenses, substantially all minimum rentals, are net of sublease income. Minimum rental payments under operating leases with initial or remaining terms of one year or more aggregated \$827 at December 31, 1997. Payments, net of sublease amounts, due during the next five years are as follows:

1998	1999	2000	2001	2002
\$205	\$167	\$120	\$86	\$61

NOTE 9**Income Taxes**

The provision for taxes on income consisted of the following:

<u>Year ended December 31,</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
U.S. Federal			
Taxes paid or			
currently payable	\$ 103	\$689	\$ 379
Change in deferred taxes	(253)	(78)	(675)
	(150)	611	(296)
State			
Taxes paid or			
currently payable	9	57	32
Change in deferred taxes	(22)	(6)	(112)
	(13)	51	(80)
Income tax			
provision (benefit)	<u>\$ (163)</u>	<u>\$662</u>	<u>\$ (376)</u>

The following is a reconciliation of the income tax provision (benefit) computed by applying the U.S. federal statutory rate of 35 percent to the recorded income tax provision:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
U.S. federal statutory tax	\$ (119)	\$ 868	\$ (144)
Foreign Sales Corporation			
tax benefit	(79)	(110)	(85)
Research benefit	(8)	(4)	(90)
Prior years' investment			
tax credit		(95)	
Prior years' tax adjustment	(23)	(30)	
Nondeductibility of			
goodwill and merger costs	71	2	
State income tax provision,			
net of effect on			
U.S. federal tax	(9)	31	(53)
Other provision adjustments	4		(4)
Income tax			
provision (benefit)	<u>\$ (163)</u>	<u>\$ 662</u>	<u>\$ (376)</u>

The deferred tax assets, net of deferred tax liabilities, resulted from an alternative minimum tax credit carry-forward and from temporary tax differences associated with the following:

<u>Year ended December 31,</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Inventory and long-term			
contract methods			
of income recognition	\$ 1,186	\$ 999	\$ 861
Pension benefit accruals	(1,152)	(1,026)	(684)
Retiree health care accruals	1,806	1,712	1,307
Other employee			
benefits accruals	318	339	291
Customer and			
commercial financing	(378)	(519)	(690)
Alternative minimum tax			
credit carryforward			130
Net deferred tax assets	<u>\$ 1,780</u>	<u>\$ 1,505</u>	<u>\$ 1,215</u>

The temporary tax differences associated with inventory and long-term contract methods of income recognition encompass related costing differences, including timing and depreciation differences.

Valuation allowances were not required due to the nature of and circumstances associated with the temporary tax differences.

Income taxes have been settled with the Internal Revenue Service (IRS) for all years through 1978, and IRS examinations have been completed through 1987. In connection with these examinations, the Company disagrees with IRS proposed adjustments, and the years 1979 through 1987 are in litigation. The Company has also filed refund claims for additional research and development tax credits, primarily in relation to its fixed-price government development programs. These credits have not been recorded as the claims are under review by the IRS in the context of prior years' audits. Successful resolutions will result in increased income to the Company.

The Company believes adequate provision has been made for all open years.

Income tax payments and transfers were \$219, \$648 and \$263 in 1997, 1996 and 1995, respectively.

NOTE 10**Accounts Payable and Other Liabilities**

Accounts payable and other liabilities at December 31 consisted of the following:

	1997	1996
Accounts payable	\$ 5,609	\$4,830
Accrued compensation and employee benefit costs	2,154	2,000
Lease and other deposits	819	399
Other	2,966	2,672
	<u>\$11,548</u>	<u>\$9,901</u>

NOTE 11**Debt**

Debt at December 31 consisted of the following:

	1997	1996
Unsecured debentures and notes:		
8.63% due Apr.1, 1997	\$ -	\$ 250
7 5/8% due Feb. 17, 1998	301	306
8 7/8% due Sep. 15, 1999	311	319
8.25% due Jul. 1, 2000	200	200
8 3/8% due Feb. 15, 2001	182	212
9.25% due Apr. 1, 2002	120	349
6 3/4% due Sep. 15, 2002	297	297
6.35% due Jun. 15, 2003	299	299
7 7/8% due Feb. 15, 2005	209	210
6 5/8% due Jun. 1, 2005	291	290
6.875% due Nov. 1, 2006	248	248
8 1/10% due Nov. 15, 2006	175	175
9.75% due Apr. 1, 2012	348	347
8 3/4% due Aug. 15, 2021	398	398
7.95% due Aug. 15, 2024	300	300
7 1/4% due Jun. 15, 2025	247	247
8 3/4% due Sep. 15, 2031	248	248
8 5/8% due Nov. 15, 2031	173	173
7.50% due Aug. 15, 2042	100	100
7 7/8% due Apr. 15, 2043	173	173
6 7/8% due Oct. 15, 2043	125	125
Senior debt securities		
5.0% - 9.4%, due through 2011	148	159
Senior medium-term notes,		
5.5% - 13.6%, due through 2017	1,129	1,124
Subordinated medium-term notes		
6.1% - 9.4%, due through 2004	70	95
Capital lease obligations,		
due through 2008	500	543
Other notes	262	302
	<u>\$6,854</u>	<u>\$7,489</u>

The \$300 debentures due August 15, 2024, are redeemable at the holder's option on August 15, 2012. All other debentures and notes are not redeemable prior to maturity. Maturities of long-term debt for the next five years are as follows:

1998	1999	2000	2001	2002
<u>\$608</u>	<u>\$602</u>	<u>\$428</u>	<u>\$419</u>	<u>\$604</u>

The Company has \$3,000 currently available under credit line agreements with a group of commercial banks. The Company has complied with the restrictive covenants contained in various debt agreements.

During the fourth quarter of 1997, Boeing Capital Corporation (BCC), a corporation wholly owned by the Company, filed a shelf registration statement with the Securities and Exchange Commission relating to up to \$1,200 aggregate principal amount of debt securities. In addition, BCC has \$240 available but unused under a credit line agreement with a group of commercial banks. At December 31, 1997 and 1996, borrowings under commercial paper and uncommitted short-term bank facilities totaling \$98 and \$141 were supported by available unused commitments under the revolving credit agreement.

The \$100 notes due August 15, 2042, with a stated rate of 7.50% were issued to a private investor in connection with an interest rate swap arrangement that resulted in an effective synthetic rate of 7.865%. The swap arrangement results in semi-annual interest rate payments at LIBOR, and is scheduled to settle when the underlying note matures. Additionally, BCC has interest rate swaps totaling \$376 relating to capital lease obligations and \$50 relating to medium-term notes. The swaps attributable to capital lease obligations have a receive rate that is floating based on LIBOR, and a pay rate that is fixed. The swaps attributable to medium-term notes have a receive rate that is fixed, and a pay rate that is based on LIBOR. Interest rate swaps on these capital lease obligations and medium-term notes are settled on the same dates interest is due on the underlying obligations.

BCC has available approximately \$95 in uncommitted, short-term bank credit facilities whereby the Company may borrow, at interest rates which are negotiated at the time of the borrowings, upon such terms as the Company and the banks may mutually agree. At December 31, 1997 and 1996, borrowings on these credit facilities totaled \$18 and \$45.

Total debt interest, including amounts capitalized, was \$573, \$450 and \$440 for the years ended December 31, 1997, 1996 and 1995, and interest payments were \$588, \$436 and \$475, respectively.

NOTE 12

Postretirement Plans

Pensions

The Company has various noncontributory plans covering substantially all employees. All major pension plans are funded and have plan assets that exceed accumulated

benefit obligations. The following table reconciles the plans' funded status to the prepaid expense balance at December 31.

	1997	1996
Actuarial present value of benefit obligations:		
Vested	\$(21,530)	\$(20,155)
Nonvested	(1,479)	(1,347)
Accumulated benefit obligation	(23,009)	(21,502)
Effect of projected future salary increases	(2,449)	(2,387)
Projected benefit obligation	(25,458)	(23,889)
Plan assets at fair value – primarily equities, fixed income obligations and cash equivalents	33,063	28,178
Plan assets in excess of projected benefit obligation	7,605	4,289
Unrecognized net actuarial gain	(5,069)	(2,015)
Unrecognized prior service cost	1,066	1,154
Unrecognized net asset at January 1, 1987, being recognized over the plans' average remaining service lives	(331)	(414)
Prepaid pension expense recognized in the Consolidated Statements of Financial Position	\$ 3,271	\$ 3,014

The pension provision included the following components:

Year ended December 31,	1997	1996	1995
Service cost (current period attribution)	\$ 492	\$ 415	\$ 387
Interest accretion on projected benefit obligation	1,697	1,141	1,066
Actual return on plan assets	(5,921)	(2,899)	(4,115)
Net deferral and amortization of actuarial gains and losses	3,748	1,499	2,802
Net pension provision	\$ 16	\$ 156	\$ 140

The actuarial present value of the projected benefit obligation at December 31, 1997, 1996 and 1995, respectively, was determined using a weighted average discount rate of 7.00%, 7.36% and 7.15%, and a rate of increase in future compensation levels of 5.00%, 5.07% and 4.85%. The expected long-term rate of return on plan assets for 1997, 1996 and 1995, respectively, was 8.33%, 8.46% and 8.47%.

Certain of the pension plans provide that, in the event there is a change in control of the Company which is not approved by the Board of Directors and the plans are terminated within five years thereafter, the assets in the plans first will be used to provide the level of retirement benefits required by the Employee Retirement Income

Security Act, and then any surplus will be used to fund a trust to continue present and future payments under the postretirement medical and life insurance benefits in the Company's group insurance programs.

The Company has an agreement with the Government with respect to certain of the Company pension plans. Under the agreement, should the Company terminate any of the plans (although the Company has no intention of doing so) under conditions in which the plan's assets exceed that plan's obligations, the Government will be entitled to a fair allocation of any of the plan's assets based on plan contributions that were reimbursed under Government contracts. Also, the Revenue Reconciliation Act of 1990 imposes a 20% nondeductible excise tax on

NOTE 12 (CONTINUED)

the gross assets reverted if the Company establishes a qualified replacement plan or amends the terminating plan to provide for benefit increases. Without a qualified replacement plan, a 50% tax is applied. Any net amount retained by the Company is treated as taxable income.

The Company has certain unfunded and partially funded plans with a projected benefit obligation of \$387 and \$323; plan assets of \$56 and \$44; and unrecognized prior service costs and actuarial losses of \$131 and \$107 as of December 31, 1997 and 1996, respectively, based on actuarial assumptions consistent with the funded plans. The net provision for the unfunded plans was \$49 and \$39 for 1997 and 1996.

The principal defined contribution plans are the Company-sponsored 401(k) plans available to substantially all employees and a funded plan for unused sick leave. The provision for these defined contribution plans in 1997, 1996 and 1995 was \$361, \$287 and \$268, respectively.

Other postretirement benefits

The Company's postretirement benefits other than pensions consist principally of health care coverage for eligible retirees and qualifying dependents, and to a lesser extent, life insurance to certain groups of retirees. Retiree health care is provided principally until age 65 for approximately half those retirees who are eligible for health care coverage, and certain employee groups, including employees covered by the United Auto Workers bargaining agreement, who are provided lifetime health care coverage.

The retiree health care cost provision was \$293, \$288 and \$314 for 1997, 1996 and 1995, respectively. The components of expense were as follows:

Year ended December 31,	1997	1996	1995
Service cost (current period attribution)	\$ 86	\$ 97	\$ 99
Interest accretion on accumulated retiree health care obligation	274	219	235
Net deferral and amortization of actuarial gains	(67)	(28)	(20)
Net provision for retiree health care	\$293	\$288	\$314

Benefit costs were calculated based on assumed cost growth for retiree health care costs of an 8.0% annual rate for 1997, decreasing to a 5.0% annual growth rate by the year 2008. A 1% increase or decrease in the assumed annual trend rates would increase or decrease the accumulated retiree health care obligation by \$410, \$377 and \$354 as of December 31, 1997, 1996 and 1995, respectively, with a corresponding effect on the retiree health care expense of \$43, \$41 and \$49. The accumulated retiree health care obligation at December 31, 1997, 1996 and 1995 was determined using a weighted average discount rate of 7.00%, 7.36% and 7.15%, respectively.

The accumulated retiree health care obligation at December 31 consisted of the following components:

	1997	1996
Retirees and dependents	\$2,330	\$2,268
Fully eligible active plan participants	450	415
Other active plan participants	1,244	1,071
Total accumulated retiree health care obligation	4,024	3,754
Unrecognized gain on plan changes	435	475
Unrecognized net actuarial gain	337	571
Accrued retiree health care	\$4,796	\$4,800

NOTE 13

Shareholders' Equity

Stock split

An increase in the total number of shares of authorized stock from 610,000,000 to 1,220,000,000 was approved by shareholders at the Company's Annual Meeting on April 28, 1997, and a 2-for-1 stock split was effective as of the close of business June 6, 1997. Shareholders' equity has been restated to give retroactive recognition to the stock split for all periods presented by reclassifying, from additional paid-in capital or retained earnings to common stock, the par value of the additional shares arising from the split. In addition, all references to number of shares and per share amounts have been restated to reflect the stock split.

Changes in shareholders' equity consisted of the following:

<i>(Shares in thousands)</i>	1997		1996		1995	
	<i>Shares</i>	<i>Amount</i>	<i>Shares</i>	<i>Amount</i>	<i>Shares</i>	<i>Amount</i>
Common stock						
Beginning balance – January 1	993,348	\$ 4,967	989,255	\$ 4,946	1,002,028	\$5,010
Shares issued	4,550	23				
Shares repurchased			(19,055)	(95)	(13,559)	(68)
Shares issued for ShareValue Trust			3,466	17		
Shares issued for acquisition of Rockwell aerospace and defense business			18,309	92		
Shares issued for incentive stock plans	2,132	10	1,373	7	786	4
Ending balance – December 31	1,000,030	\$ 5,000	993,348	\$ 4,967	989,255	\$4,946
Additional paid-in capital						
Beginning balance – January 1		\$ 920		\$ 0		\$ 0
Shares issued		245				
Shares repurchased				(383)		(44)
Shares issued for incentive plans						14
Incentive stock plan accrual						11
Treasury shares issued for incentive stock plans, net		(20)		27		(11)
Tax benefit related to incentive stock plans		41		58		21
Stock appreciation rights expired or surrendered		6		9		9
Shares issued for ShareValue Trust				209		
Shares issued for acquisition of Rockwell aerospace and defense business				784		
ShareValue Trust market value adjustment		(102)		216		
Ending balance – December 31		\$ 1,090		\$ 920		\$ 0
Treasury stock						
Beginning balance – January 1	30	\$ (1)	10,608	\$ (209)	16,756	\$ (328)
Treasury shares issued for incentive stock plans, net	(2,580)	133	(7,614)	150	(6,148)	119
Treasury shares acquired	2,710	(141)				
Shares transferred from/to ShareValue Trust	5		(2,964)	58		
Ending balance – December 31	165	\$ (9)	30	\$ (1)	10,608	\$ (209)
Retained earnings						
Beginning balance – January 1		\$ 8,896		\$ 7,808		\$8,503
Net earnings		(178)		1,818		(36)
Shares repurchased				(233)		(226)
Cash dividends declared		(571)		(497)		(433)
Ending balance – December 31		\$ 8,147		\$ 8,896		\$7,808
Unearned compensation						
Beginning balance – January 1		\$ (22)		\$ (18)		\$ (12)
New issuances		(29)		(20)		(17)
Amortization		31		16		11
Ending balance – December 31		\$ (20)		\$ (22)		\$ (18)
ShareValue Trust						
Beginning balance – January 1	26,120	\$(1,258)	0	\$ 0	0	\$ 0
Shares acquired for original funding	(5)		26,032	\$(1,171)		
Shares acquired from dividend reinvestment	270		88	(4)		
Market value adjustment		102		(216)		
Accrual of appreciation		(99)		133		
Ending balance – December 31	26,385	\$(1,255)	26,120	\$(1,258)	0	\$ 0

Ten million shares of authorized preferred stock remain unissued.

NOTE 13 (CONTINUED)

The Rights issued in August 1987 pursuant to the Stockholders Rights Plan expired in August 1997. Each Right entitled the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value \$1.00 per share (the "Preferred Stock"), under circumstances set forth in the Plan. The Rights were attached to certificates for shares of the common stock, par value of \$5 each, of the Company and were transferred only with such common stock certificates. No Preferred Stock has been issued.

NOTE 14**ShareValue Trust**

In July 1996, the Company established a self-sustaining, irrevocable 12-year trust, the ShareValue Trust, designed to allow substantially all employees to share in the results of increasing shareholder value over the long term. As of December 31, 1997, the Trust had acquired 26,025,460 shares of the Company's common stock, equivalent to \$1,150 of market value based upon a stock price of \$44 3/16, which was the average price per share on June 28, 1996, plus 359,800 shares acquired from reinvested dividends. Shares of common stock held by the Trust are legally outstanding and entitled to receive dividends. Dividends received by the Trust are reinvested in additional shares of common stock. If the term of the Trust is not extended beyond the initial irrevocable 12-year period, any residual trust balance will revert to the Company.

Two investment periods began on July 1, 1996. One period has a duration of two years and the other has a duration of four years. Each period was allocated a fund of one-half of the total shares. Distributions from the ShareValue Trust to employees in the form of common stock will be made to the extent the market value of the ShareValue Trust has increased above a pre-defined threshold amount of 3% per annum at the end of that fund's investment period. The ShareValue Trust bears its own nominal administrative costs paid out of the Trust assets. At the end of each investment period, a new four-year investment period will begin, resulting in overlapping periods with potential distributions every two years. The Trust fund market value after distribution will be the base from which the distributable market value appreciation over the threshold for the succeeding investment period will be determined.

Although the obligation to make these distributions is solely that of the Trust and no assets of the Company will be required in the future to satisfy the Trust distribution obligations, the change in Trust appreciation above the threshold amounts for the respective investment periods is charged or credited to earnings based on the Trust valuation as of the end of the reporting period. ShareValue Trust charges and credits reflected in earnings will not impact the Company's current or future cash flow. As of December 31, 1997, the total increased value of both current funds exceeded the thresholds by \$34.

The shares held by the ShareValue Trust, recorded in the contra equity account "ShareValue Trust," are legally outstanding and receive dividend payments. The ShareValue Trust is adjusted to market value at each reporting period, with an offsetting adjustment to additional paid-in capital.

An additional \$550 of funding will be made effective January 1, 1998, as a result of the merger with McDonnell Douglas Corporation.

NOTE 15**Stock-Based Plans**

The Company's 1997 incentive stock plan permits the grant of stock options, stock appreciation rights (SARs) and restricted stock awards (denominated in stock or stock units) to any employee of the Company or its subsidiaries. Under the terms of the plan, 30,000,000 shares are authorized for issuance upon exercise of options, as payment of SARs and as restricted stock awards, of which no more than an aggregate of 6,000,000 shares are available for issuance as restricted stock awards and no more than an aggregate of 3,000,000 shares are available for issuance as restricted stock that is subject to restrictions based on continuous employment for less than three years. This authorization for issuance under the 1997 plan will terminate on April 30, 2007. As of December 31, 1997, no SARs have been granted under the 1997 Plan. The 1993 incentive stock plan permitted the grant of options, SARs and stock to employees of the Company or its subsidiaries. The 1988 and 1984 stock option plans permitted the grant of options or SARs to officers or other key employees of the Company or its subsidiaries. No further grants may be awarded under these three plans.

Options and SARs have been granted with an exercise price equal to the fair market value of the Company's stock on the date of grant and expire ten years after the grant date. Vesting is generally over a five-year period with portions of a grant becoming exercisable at one year, three years and five years after the grant date. In 1993 and 1994, certain senior executives were awarded options under the 1993 plan which became exercisable based solely upon maintenance of certain stock prices for periods of twenty consecutive days. These options became fully exercisable in late 1995 and expire on December 13, 1998. SARs, which have been granted only under the 1988 and 1984 plans, were granted in tandem

with stock options; therefore, exercise of the SAR cancels the related option and exercise of the option cancels the attached SAR.

In 1994, McDonnell Douglas shareholders approved the 1994 Performance Equity Incentive Plan. Restricted stock issued under this plan prior to 1997 vested upon the merger between McDonnell Douglas and The Boeing Company. As of December 31, 1997, a total of 594,000 shares had been granted and remain restricted. Substantially all compensation relating to these restricted shares is being amortized to expense over three years. Unearned compensation is reflected as a component of shareholders' equity.

Information concerning stock options issued to directors, officers and other employees is presented in the following table.

<i>(Shares in thousands)</i>	1997		1996		1995	
	<i>Shares</i>	<i>Weighted Average Exercise Price</i>	<i>Shares</i>	<i>Weighted Average Exercise Price</i>	<i>Shares</i>	<i>Weighted Average Exercise Price</i>
Number of shares under option:						
Outstanding at beginning of year	26,525	\$25.47	28,754	\$20.19	30,332	\$18.92
Granted	6,320	53.16	6,692	40.32	5,814	23.23
Exercised	(4,502)	21.77	(8,356)	19.34	(6,406)	17.43
Canceled or expired	(223)	47.84	(233)	35.92	(464)	21.65
Exercised as SARs	(415)	15.21	(332)	13.70	(522)	12.32
Outstanding at end of year	27,705	32.36	26,525	25.47	28,754	20.19
Exercisable at end of year	12,277	\$24.09	12,412	\$20.13	16,401	\$19.21

As of December 31, 1997, 29,911,000 shares were available for grant under the 1997 Incentive Stock Plan, and 9,965,000 shares were available for grant under the Incentive Compensation Plan.

The following table summarizes information about stock options outstanding at December 31, 1997 (shares in thousands).

<i>Range of Exercise Prices</i>	<i>Options Outstanding</i>			<i>Options Exercisable</i>	
	<i>Shares</i>	<i>Weighted Average Remaining Contractual Life (years)</i>	<i>Weighted Average Exercise Price</i>	<i>Shares</i>	<i>Weighted Average Exercise Price</i>
\$0 to \$9	45	4.5	\$ 7.20	45	\$ 7.20
\$10 to \$19	5,254	5.2	16.26	3,522	16.57
\$20 to \$29	10,029	5.8	23.25	6,730	23.19
\$30 to \$39	1,790	8.1	38.48	42	36.48
\$40 to \$49	4,465	8.3	41.05	1,938	41.00
\$50 to \$59	6,122	9.3	53.18	0	0.00
	27,705			12,277	

NOTE 15 (CONTINUED)

Accounting for stock-based plans is in accordance with Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees*. Accordingly, no compensation expense has been recognized for fixed stock option plans. Expense (income) recognized for performance-based stock plans and the ShareValue Program was \$(68), \$176 and \$59 for 1997, 1996 and 1995, respectively.

As required by SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company has determined the weighted average fair values of stock-based arrangements granted, including ShareValue Trust, during 1997, 1996 and 1995 to be \$20.67, \$8.39 and \$8.13. The fair values of stock-based compensation awards granted and of potential distributions under the ShareValue Trust arrangement were estimated using a binomial option pricing model with the following assumptions.

	Grant Date	Expected		Dividend Yield	Risk-Free Interest Rate
		Option Term	Volatility		
1997	1/13/97	9 years	19%	1.1%	6.6%
	2/24/97	9 years	19%	1.1%	6.6%
1996	1/11/96	5 years	17%	1.3%	5.3%
	7/1/96	2 years	17%	-	6.3%
	7/1/96	4 years	17%	-	6.3%
	2/26/96	9 years	21%	1.2%	6.0%
1995	2/27/95	9 years	20%	2.2%	7.2%

Had compensation expense for the Company's stock-based plans been accounted for using the fair value method prescribed by SFAS No. 123, net income and earnings per share would have been as follows:

	1997	1996	1995
Net earnings (loss) as reported	\$(178)	\$1,818	\$(36)
Pro forma net earnings (loss) under SFAS No. 123	\$(332)	\$1,852	\$(50)
Earnings (loss) per share as reported			
Basic	\$ (.18)	\$ 1.88	\$(.04)
Diluted	\$ (.18)	\$ 1.85	\$(.04)
Pro forma net earnings (loss) under SFAS No. 123			
Basic	\$ (.34)	\$ 1.91	\$(.05)
Diluted	\$ (.34)	\$ 1.89	\$(.05)

The effects of applying SFAS No. 123 in the above pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to awards granted prior to 1995.

NOTE 16**Derivative Financial Instruments**

The derivative financial instruments held by the Company at December 31, 1997, consisted of simple and specifically tailored interest rate swaps and foreign currency forward contracts. The Company does not trade in derivatives for speculative purposes.

The interest rate swaps, which are associated with certain customer financing receivables and long-term debt, are designed to achieve a desired balance of fixed and variable rate positions. These swaps are accounted for as integral components of the associated receivable and debt, with interest accrued and recognized based upon the effective rates. Due to the component nature of these interest rate swaps, there are no associated gains or losses. (See Note 7, Note 11 and Note 19.)

Foreign currency forward contracts are entered into to hedge specific receipt and expenditure commitments made in foreign currencies. As of December 31, 1997, the notional amount of foreign currency forward contracts denominated in foreign currencies was \$535, with unrealized gains, net of unrealized losses, of \$5.

NOTE 17**Financial Instruments with Off-Balance-Sheet Risk**

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business, principally relating to customer financing activities. Financial instruments with off-balance-sheet risk include financing commitments, credit guarantees, and participations in customer financing receivables with third-party investors which involve interest rate terms different from the underlying receivables.

Irrevocable financing commitments related to aircraft on order, including options, scheduled for delivery through 2006 totaled \$6,029 and \$6,454 as of December 31, 1997 and 1996. The Company anticipates that not all of these commitments will be utilized and that it will be able to arrange for third-party investors to assume a portion of the remaining commitments, if necessary. The Company has additional commitments to arrange for commercial equipment financing totaling \$132 and \$77 as of December 31, 1997 and 1996.

Participations in customer financing receivables with third-party investors which involve interest rate terms different from the underlying receivables totaled \$64 and \$77 as of December 31, 1997 and 1996.

The Company's maximum exposure to credit-related losses associated with credit guarantees, without regard to collateral, totaled \$955 (\$660 associated with commercial aircraft and collateralized) and \$868 (\$722 associated with commercial aircraft and collateralized) as of December 31, 1997 and 1996.

The Company's maximum exposure to losses associated with asset value guarantees, without regard to collateral, totaled \$470 and \$586 as of December 31, 1997 and 1996. These asset value guarantees relate to commercial aircraft and are collateralized.

NOTE 18**Significant Group Concentrations of Credit Risk**

Financial instruments involving potential credit risk are predominantly with commercial airline customers and the U.S. Government. As of December 31, 1997, off-balance-sheet financial instruments described in Note 17 predominantly related to commercial aircraft customers. Of the \$7,721 in accounts receivable and customer financing receivables included in the Consolidated Statements of Financial Position, \$4,090 related to commercial aircraft customers and \$2,053 related to the U.S. Government. No single commercial airline customer is associated with more than 15% of all financial instruments relating to customer financing. Financing for aircraft is collateralized by security in the related asset, and historically the Company has not experienced a problem in accessing such collateral.

The Company has customer financing and commitments to arrange for future financing with Trans World Airlines (TWA) totaling \$988. TWA continues to operate under a reorganization plan, confirmed by the U.S. Bankruptcy Court in 1995, that restructured its indebtedness and leasehold obligations to its creditors. In addition, TWA continues to face financial and operational challenges due in part to an airliner crash in July 1996 and turnover of key management, which occurred in 1996. Further deterioration of TWA's financial condition could adversely affect the performance of customer financing extended to TWA; however, because of the underlying collateral position held by the Company, possible future nonperformance of financing extended to TWA is not expected to have a material adverse impact on the Company's liquidity or results of operations.

NOTE 19**Disclosures about Fair Value of Financial Instruments**

As of December 31, 1997 and 1996, the carrying amount of accounts receivable was \$3,121 and \$2,870, and the fair value of accounts receivable was estimated to be \$3,033 and \$2,798. The lower fair value reflects a discount due to deferred collection for certain receivables that will be collected over an extended period. The carrying value of accounts payable is estimated to approximate fair value.

The carrying amount of notes receivable, net of valuation allowance, is estimated to approximate fair value. Although there are generally no quoted market prices available for customer financing notes receivable, the valuation assessments were based on the respective interest rates, risk-related rate spreads and collateral considerations.

As of December 31, 1997 and 1996, the carrying amount of debt, net of capital leases, was \$6,354 and \$6,946, and the fair value of debt, based on current market rates for debt of the same risk and maturities, was estimated at \$6,996 and \$7,360. The Company's debt, however, is generally not callable until maturity.

With regard to financial instruments with off-balance-sheet risk, it is not practicable to estimate the fair value of future financing commitments, and all other off-balance-sheet financial instruments are estimated to have only a nominal fair value. The terms and conditions reflected in the outstanding guarantees and commitments for financing assistance are not materially different from those that would have been negotiated as of December 31, 1997.

NOTE 20**Contingencies**

Various legal proceedings, claims and investigations related to products, contracts and other matters are pending against the Company. Most significant legal proceedings are related to matters covered by insurance. Major contingencies are discussed below.

The Company is subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. Due in part to their complexity and pervasiveness, such requirements have resulted in the Company being involved with related legal proceedings, claims and remediation obligations since the 1980s.

The Company routinely assesses, based on in-depth studies, expert analyses and legal reviews, its contingencies, obligations and commitments for remediation of contaminated sites, including assessments of ranges and probabilities of recoveries from other responsible parties who have and have not agreed to a settlement and of recoveries from insurance carriers. The Company's policy is to immediately accrue and charge to current expense identified exposures related to environmental remediation sites based on conservative estimates of investigation, cleanup and monitoring costs to be incurred.

The costs incurred and expected to be incurred in connection with such activities have not had, and are not expected to have, a material impact on the Company's financial position. With respect to results of operations, related charges have averaged less than 2% of annual net earnings exclusive of special charges. Such accruals as of December 31, 1997, without consideration for the related contingent recoveries from insurance carriers, are less than 2% of total liabilities.

Because of the regulatory complexities and risk of unidentified contaminated sites and circumstances, the potential exists for environmental remediation costs to be materially different from the estimated costs accrued for identified contaminated sites. However, based on all known facts and expert analyses, the Company believes it is not reasonably likely that identified environmental contingencies will result in additional costs that would have a material adverse impact to the Company's financial position or operating results and cash flow trends.

The Company is subject to U.S. Government investigations of its practices from which civil, criminal or administrative proceedings could result. Such proceedings could involve claims by the Government for fines, penalties, compensatory and treble damages, restitution and/or forfeitures. Under government regulations, a company, or one or more of its operating divisions or subdivisions, can also be suspended or debarred from government contracts, or lose its export privileges, based on the results of investigations. The Company believes, based upon all available information, that the outcome of any such government disputes and investigations will not have a material adverse effect on its financial position or continuing operations.

On January 7, 1991, the U.S. Navy notified the Company and General Dynamics Corporation (the Team) that it was terminating for default the Team's contract for development and initial production of the A-12 aircraft. The Team filed a legal action to contest the Navy's default termination, to assert its rights to convert the termination to one for "the convenience of the Government," and to obtain payment for work done and costs incurred on the A-12 contract but not paid to date. At December 31, 1997, inventories included approximately \$581 of recorded costs on the A-12 contract, against which the Company has established a loss provision of \$350. The amount of the provision, which was established in 1990, was based on the Company's belief, supported by an opinion of outside counsel, that the termination for default would be converted to a termination for convenience, that the Team would establish a claim for contract adjustments for a minimum of \$250, that there was a range of reasonably possible results on termination for convenience, and that it was prudent to provide for what the Company then believed was the upper range of possible loss on termination for convenience, which was \$350.

On December 19, 1995, the U.S. Court of Federal Claims ordered that the Government's termination of the A-12 contract for default be converted to a termination for convenience of the Government. On December 13, 1996, the Court issued an opinion confirming its prior no-loss adjustment and no-profit recovery order. Subsequent to an early 1997 stipulation based on the prior orders and findings of the Court in which the parties agreed that plaintiffs were entitled to recover \$1,071, the Court has preliminarily determined that the Government is liable for certain adjustments that increase the plaintiffs' possible recovery. A trial to determine the plaintiffs' recovery has now concluded and judgment is expected in the near future. On January 22, 1997, the Court issued an opinion in which it ruled that plaintiffs are entitled to recover interest on that recovery.

Although the Government is expected to appeal the resulting judgment, the Company believes the judgment will be sustained. Final resolution of the A-12 litigation will depend on such appeals and possible further litigation, or negotiations, with the Government. If sustained, however, the expected damages judgment, including interest, could result in pretax income that would more than offset the loss provision established in 1990.

On October 31, 1997, a federal securities lawsuit was filed against the Company in the U.S. District Court for the Western District of Washington, in Seattle. The lawsuit names as defendants the Company and three of its executive officers. Additional lawsuits of a similar nature have been filed in the same court. The plaintiffs in each lawsuit seek to represent a class of purchasers of Boeing stock between July 21, 1997, and October 22, 1997, (the "Class Period"), including recipients of Boeing stock in the McDonnell Douglas merger. July 21, 1997, was the date on which the Company announced its second quarter results, and October 22, 1997, was the date on which the Company announced charges to earnings associated with production problems being experienced on commercial aircraft programs. The lawsuits generally allege that the defendants desired to keep the Company's share price as high as possible in order to ensure that the McDonnell Douglas shareholders would approve the merger and, in the case of two of the individual defendants, to benefit directly from the sale of Boeing stock during the Class Period. The plaintiffs seek compensatory damages and treble damages. The Company believes that the allegations are without merit and that the outcome of these lawsuits will not have a material adverse effect on its earnings, cash flow or financial position.

NOTE 21

Segment Information

Information concerning segment information can be found on pages 48 and 49.

THE BOEING COMPANY AND SUBSIDIARIES

REPORT OF MANAGEMENT

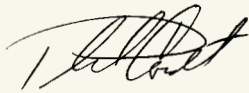
To the Shareholders of The Boeing Company:

The accompanying consolidated financial statements of The Boeing Company and subsidiaries have been prepared by management who are responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and include amounts based on management's best estimates and judgments. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

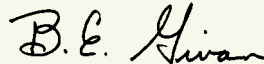
Management has established and maintains a system of internal control designed to provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period. The system of internal control includes widely communicated statements of policies and business practices which are designed to require all employees to maintain high ethical standards in the conduct of Company affairs. The internal controls are augmented by organizational arrangements that provide for appropriate delegation of authority and division of responsibility and by a program of internal audit with management follow-up.

The financial statements have been audited by Deloitte & Touche LLP, independent certified public accountants. Their audit was conducted in accordance with generally accepted auditing standards and included a review of internal controls and selective tests of transactions. The Independent Auditors' Report appears below.

The Audit Committee of the Board of Directors, composed entirely of outside directors, meets periodically with the independent certified public accountants, management and internal auditors to review accounting, auditing, internal accounting controls, litigation and financial reporting matters. The independent certified public accountants and the internal auditors have free access to this committee without management present.



Philip M. Condit
Chairman of the Board and
Chief Executive Officer



B.E. Givan
Senior Vice President and
Chief Financial Officer



Gary W. Beil
Vice President and
Controller

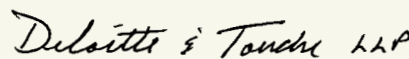
INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders, The Boeing Company:

We have audited the accompanying consolidated statements of financial position of The Boeing Company and subsidiaries as of December 31, 1997 and 1996, and the related statements of operations and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger of The Boeing Company and McDonnell Douglas Corporation, which has been accounted for as a pooling of interests as described in Note 2 to the consolidated financial statements. We did not audit the statement of financial position of McDonnell Douglas Corporation as of December 31, 1996, or the related statements of operations and cash flows for the years ended December 31, 1996 and 1995, which statements reflect total assets of \$11,631,000,000 as of December 31, 1996, and total revenues of \$13,834,000,000 and \$14,332,000,000 for the years ended December 31, 1996 and 1995, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for McDonnell Douglas Corporation for 1996 and 1995, is based solely on the report of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Boeing Company and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.



Deloitte & Touche LLP
Seattle, Washington
January 27, 1998

THE BOEING COMPANY AND SUBSIDIARIES

QUARTERLY FINANCIAL DATA (UNAUDITED)

(Dollars in millions except per share data)

Quarter	1997				1996			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Sales and other operating revenues	\$11,727	\$11,371	\$12,343	\$10,359	\$9,977	\$9,009	\$9,420	\$7,047
Earnings from operations	(891)	(979)	775	740	732	658	809	419
Net earnings	(498)	(696)	476	540	444	466	646	262
Basic earnings per share	(.51)	(.72)	.49	.56	.46	.48	.66	.27
Diluted earnings per share	(.51)	(.72)	.48	.55	.46	.48	.65	.26
Net earnings excluding ShareValue Trust charges in 1997 and 1996 and \$1,400 pretax special charge relating to Douglas Products Division in 1997	290	(675)	541	476	528	469	646	262
Per diluted share (a)	.29	(.67)	.54	.47	.53	.47	.65	.26
Cash dividends per share	.14	.14	.14	.14	.14	.14	.14	.13
Market price:								
High	55.25	60.50	58.00	57.25	53.75	48.00	45.25	44.56
Low	43.00	51.31	47.00	49.31	45.13	39.94	37.06	37.69
Quarter end	48.94	54.44	53.06	49.31	53.25	47.25	43.56	43.31

(a) Per share computation includes outstanding shares held by the ShareValue Trust.

THE BOEING COMPANY AND SUBSIDIARIES

FIVE-YEAR SUMMARY

<i>(Dollars in millions except per share data)</i>	1997	1996	1995	1994	1993
Operations					
Sales and other operating revenues					
Commercial Aircraft	\$ 26,929	\$ 19,916	\$17,511	\$19,778	\$25,120
Information, Space and Defense Systems	18,125	14,934	14,849	14,676	14,090
Customer and commercial financing, other	746	603	600	515	501
Total	\$ 45,800	\$ 35,453	\$32,960	\$34,969	\$39,711
Net earnings (loss)	\$ (178)	\$ 1,818	\$ (36)	\$ 1,483	\$ 1,640
Basic earnings per share (a)	(.18)	1.88	(.04)	1.50	1.66
Diluted earnings per share (a)	(.18)	1.85	(.04)	1.48	1.64
Net earnings excluding ShareValue Trust and special charges	\$ 632	\$ 1,905	\$ 1,479	\$ 1,483	\$ 1,640
Diluted earnings per share (b)	.63	1.92	1.49	1.48	1.64
Percent of sales	1.4%	5.4%	4.5%	4.2%	4.1%
Cash dividends paid	\$ 557	\$ 480	\$ 434	\$ 395	\$ 395
Per share	.56	.55	.50	.50	.50
Other income, principally interest	428	388	280	194	241
Research and development expense	1,924	1,633	1,674	2,076	2,077
General and administrative expense	2,187	1,819	1,794	1,776	1,798
Additions to plant and equipment, net	1,391	971	747	883	1,349
Depreciation of plant and equipment	1,266	1,132	1,172	1,294	1,211
Employee salaries and wages	11,287	9,225	8,688	9,037	9,551
Year-end workforce	238,000	211,000	169,000	183,000	195,000
Financial position at December 31					
Total assets	\$ 38,024	\$ 37,880	\$31,877	\$32,259	\$31,199
Working capital	5,111	7,783	7,490	6,299	5,108
Net plant and equipment	8,391	8,266	7,927	8,399	8,838
Cash and short-term investments	5,149	6,352	4,527	3,064	3,194
Total debt	6,854	7,489	5,401	5,247	5,840
Customer and commercial financing assets	4,600	3,888	4,212	5,408	5,534
Shareholders' equity	12,953	13,502	12,527	13,173	11,966
Per share	13.31	13.96	12.80	13.37	12.12
Common shares outstanding (in millions)	973.5	967.2	978.6	985.3	987.1
Contractual backlog					
Commercial Aircraft	\$ 93,788	\$ 86,151	\$73,715	\$68,158	\$78,172
Information, Space and Defense Systems	27,852	28,022	21,773	18,798	18,485
Total	\$121,640	\$114,173	\$95,488	\$86,956	\$96,657
Cash dividends have been paid on common stock every year since 1942.					
(a) Per share computation excludes outstanding shares held by the ShareValue Trust.					
(b) Per share computation includes outstanding shares held by the ShareValue Trust.					

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Board of Directors

John H. Biggs
Chairman of the Board, President
and Chief Executive Officer
Teachers Insurance and
Annuity Association –
College Retirement Equities Fund
Committees: Compensation,
Organization and Nominating

John E. Bryson
Chairman of the Board
and Chief Executive Officer
Edison International
Committees: Audit* and Finance

Philip M. Condit
Chairman of the Board
and Chief Executive Officer
The Boeing Company

Kenneth M. Duberstein
Chairman of the Board
and Chief Executive Officer
The Duberstein Group
Committees: Audit and Finance

John B. Fery
Retired Chairman of the Board
and Chief Executive Officer
Boise Cascade Corporation
Committees: Audit and Finance*

Paul E. Gray
President Emeritus and
Professor of Electrical Engineering,
Massachusetts Institute of Technology
Committees: Audit and Finance

John F. McDonnell
Retired Chairman of the Board
McDonnell Douglas Corporation
Committees: Audit and Finance

William J. Perry
Professor in the School of Engineering
and Senior Fellow at the Institute for
International Studies, Stanford University
Committees: Compensation,
Organization and Nominating

Donald E. Petersen
Retired Chairman of the Board
and Chief Executive Officer
Ford Motor Company
Committees: Compensation*,
Organization and Nominating

Charles M. Pigott
Chairman Emeritus
PACCAR Inc
Committees: Compensation,
Organization and Nominating*

Rozanne L. Ridgway
Former Assistant Secretary of State
for Europe and Canada
Committees: Audit and Finance

Harry C. Stonecipher
President and
Chief Operating Officer
The Boeing Company

George H. Weyerhaeuser
Chairman of the Board
Weyerhaeuser Company
Committees: Compensation,
Organization and Nominating

**Committee Chair*

Executive Officers

Philip M. Condit
Chairman of the Board
and Chief Executive Officer

Harry C. Stonecipher
President and
Chief Operating Officer

Theodore J. Collins
Senior Vice President,
General Counsel and Secretary

James B. Dagnon
Senior Vice President – People

Stanley Ebner
Senior Vice President –
Washington, D.C., Operations

Boyd E. Givan
Senior Vice President
and Chief Financial Officer

James F. Palmer
Senior Vice President
and President of Shared Services Group

John D. Warner
Senior Vice President
and Chief Administrative Officer

Larry A. Bishop
Vice President of Communications
and Investor Relations

**BOEING COMMERCIAL
AIRPLANE GROUP**

Ronald B. Woodard
Senior Vice President
and President of Boeing Commercial
Airplane Group

Henry P. Arnold
BCAG Executive Vice President,
Airplane Development & Definition

Nancy J. Bethel
BCAG Executive Vice President, Customers

Lawrence W. Clarkson
Senior Vice President
and President of Boeing Enterprises

Robert L. Dryden
BCAG Executive Vice President,
Airplane Production

W. Daniel Heidt
BCAG Executive Vice President,
Airplane Components

Fred R. Howard
BCAG Executive Vice President,
Business Resources

Fredrick C. Mitchell
BCAG Executive Vice President,
Airplane Programs

Thomas E. Schick
BCAG Executive Vice President
and Deputy to BCAG President

**INFORMATION, SPACE &
DEFENSE SYSTEMS GROUP**

Alan R. Mulally
Senior Vice President
and President of Information, Space
and Defense Systems Group

Scott E. Carson
ISDS Executive Vice President,
Business Resources

James W. Evatt
ISDS Executive Vice President,
President of Information and
Communication Systems

John A. McLuckey
ISDS Executive Vice President,
President of Space Systems

Michael M. Sears
ISDS Executive Vice President,
President of McDonnell Aircraft
and Missile Systems

David Swain
ISDS Executive Vice President –
Phantom Works

The Boeing Company General Offices

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Seattle, Washington 98108
(206) 655-2121

**Transfer Agent, Registrar and Dividend Paying Agent
BankBoston, N.A.**

The transfer agent is responsible for shareholder records, issuance of stock certificates, distribution of dividends and IRS Form 1099. Requests concerning these matters are most efficiently answered by contacting:

BankBoston, N.A.
c/o Boston EquiServe, L.P.
Mail Stop 45-02-64
P.O. Box 8040
Boston, Massachusetts 02266-8040
(781) 575-3400 or (888) 777-0923

Boeing shareholders can obtain answers to frequently asked questions, such as transfer instructions and the terms of the *Dividend Reinvestment and Stock Purchase Plan*, through Boston EquiServe's home page at <http://www.equiserve.com> on the World Wide Web.

Duplicate Shareholder Accounts

Shareholders with duplicate accounts may call BankBoston, N.A. for instructions on consolidating those accounts. The company recommends that registered shareholders *always use the same form of their names* in all stock transactions to be handled in the same account. Shareholders may also request the Bank to eliminate excess mailings of annual and midyear reports going to shareholders in the same household.

Change of Address

For Boeing shareholders of record:

BankBoston, N.A.
Transfer Processing - c/o Boston EquiServe, L.P.
Mail Stop 45-01-20
P.O. Box 8040
Boston, MA 02266-8040
or call (888) 777-0923

Annual Meeting

The annual meeting of Boeing shareholders will be held in the Engineering Campus Auditorium (Bldg. 33) on the corner of Lindbergh and J.S. McDonnell Boulevards, Hazelwood, Missouri, at 10:00 a.m. on Monday, April 27, 1998. Formal notice of the meeting, proxy statement, form of proxy and annual report were mailed to shareholders beginning March 20, 1998.

Written inquiries may be sent to:
(write to the Department and Mail Code)
The Boeing Company
P.O. Box 3707
Seattle, Washington 98124-2207

Shareholder Services
Mail Code 10-13

Investor Relations
Mail Code 10-16

Data Shipping
To obtain annual reports, 10-K, 10-Q, proxy statements
Mail Code 3T-33, or call (425) 393-4964 or
(800) 457-7723

Company Shareholder Services

Pre-recorded shareholder information and quarterly earnings data are available toll-free from Boeing Shareholder Services at (800) 457-7723.

Stock Exchanges

The company's common stock is traded principally on the New York Stock Exchange; the trading symbol is BA. Boeing common stock is also listed on the Amsterdam, Brussels, London, Swiss and Tokyo stock exchanges. Additionally, the stock is traded on the Boston, Chicago, Cincinnati, Pacific and Philadelphia exchanges.

General Auditors

Deloitte & Touche LLP
700 Fifth Avenue, Suite 4500
Seattle, Washington 98104-5044
(206) 292-1800

Boeing on World Wide Web

For more information about Boeing, including an electronic copy of the annual report and the proxy statement, visit our site at <http://www.boeing.com> on the Web.

Equal Opportunity Employer

Boeing is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, sex, age, religion, national origin or veteran status.

THE BOEING COMPANY
GENERAL OFFICES
7755 EAST MARGINAL WAY SOUTH
SEATTLE, WASHINGTON 98108

