

BOEING REPORTS 1997 FULL YEAR AND 4TH QUARTER RESULTS

	Year ended		4 th Quarter	
	1997	1996	1997	1996
<hr/> (Dollars in millions except per share data) <hr/>				
Sales and other operating revenues	\$45,800	\$35,453	\$11,727	\$9,977
Net earnings (loss)	\$(178)	\$1,818	\$(498)	\$444
Earnings (loss) per share *	\$(.18)	\$1.85	\$(.51)	\$.46
Average shares (millions) *	984.5	981.9	985.5	969.2
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Before special charge and ShareValue Trust accounting:				
Net earnings	\$632	\$1,905	\$290	\$528
Earnings per share *	\$.63	\$1.92	\$.29	\$.53
Average shares (millions) *	1,008.4	992.5	1,010.2	992.4

* Diluted

SEATTLE, Jan. 27, 1998 – Sales of \$45.8 billion and a net loss of \$178 million or \$.18 per share for the full year of 1997 were reported by Phil Condit, Boeing chairman and chief executive officer. The loss for the year was attributable to the special charge in the fourth quarter for commercial aircraft product lines of the former McDonnell Douglas Corporation of \$1.4 billion pretax, or \$.9 billion after tax, together with the production inefficiencies experienced on other commercial aircraft programs resulting from the rapid increase in production rates. The results reflect the combined operations resulting from the merger with McDonnell Douglas Corporation, which was completed on Aug. 1, 1997. Comparable figures for the same period of 1996 were sales of \$35.5 billion and net earnings of \$1,818 million or \$1.85 per share.

The higher sales for 1997 reflect the increased deliveries in both the commercial aircraft and the defense, space and information systems segments and the inclusion in 1997 of the operations of the aerospace and defense units acquired from Rockwell International Corporation in December 1996.

Earnings for the full year of 1997, excluding the \$1.4 billion pretax special charge and \$99 million pretax income from ShareValue Trust accounting, were \$632 million, compared with \$1,905 million for 1996. The reduction in earnings was principally attributable to the commercial aircraft production inefficiencies associated with the significant production rate increases. Additionally, 1997 results included increased research and development

spending, merger-related expense of \$120 million, and increased debt expense. Partially offsetting these factors were the earnings associated with the higher sales levels in 1997 and increased other income. The 1996 results included \$199 million after-tax income related to the settlement of certain defense, space and information systems segment contract issues and recognition of prior year tax benefits.

Sales for the fourth quarter of 1997 were \$11.7 billion and earnings, excluding the special charge and the ShareValue Trust accounting, were \$290 million or \$.29 per share. Comparable figures for 1996 were sales of \$10.0 billion and net earnings of \$528 million or \$.53 per share. Fourth quarter 1997 net earnings include the effect of the lower commercial aircraft profit margins associated with production recovery and disruption inefficiencies.

Production problems being experienced on the commercial aircraft programs reached unexpected levels late in the third quarter. The Company is in the midst of an unprecedented production rate build-up for the 7-series commercial aircraft programs, and has experienced 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. Process inefficiencies and work-arounds will continue until the entire process is substantially back in balance, which is expected to occur in 1998.

In January 1998, the planned production rate for 7-series models is 40 airplanes per month, up from a low of 18 airplanes per month in 1996. The current 40 aircraft per month production rate is planned to increase to 43 aircraft per month during the second quarter. Thus far, the commercial aircraft group is on plan with scheduled production rate increases. Production will continue to be adjusted to reflect customer requirements and the Company's capabilities.

The Company recently completed an assessment of the financial impact of its post-merger strategy decisions related to its McDonnell Douglas Corporation commercial aircraft product lines and announced a special charge relative to

these decisions on Jan. 21, 1998. The charge principally represents an inventory valuation adjustment based on post-merger assessments of the market conditions and related program decisions. Also included in the charge are valuation adjustments in connection with customer financing assets and commitments. As previously announced, the MD-80 and MD-90 twinjets will continue to be produced only until approximately mid-1999, the MD-11 trijet market opportunities continue to be principally limited to the freighter version, and the MD-95 program has been restructured to take advantage of the longer-term market opportunities currently projected for a 100-seat aircraft and has been renamed the 717-200 model.

Total Company revenues for 1998 are projected to be in the \$55 billion range, compared with \$45.8 billion in 1997. Commercial jet aircraft deliveries for 1998 are currently expected to be about 550 aircraft, including approximately 225 of the newer-model 737s and 777s. First quarter 1998 deliveries will be somewhat lower than subsequent quarters of the year, reflecting production recovery, certification change incorporation on the first 28 737-700s, and customer requirements. The Company is closely monitoring the economic situation in Asia, which may have potential impact on future deliveries.

Research and development expense for the year ended 1997 was \$1,924 million or \$291 million higher than the comparable period in 1996. The 1997 increase in research and development expense is primarily attributable to the defense, space and information systems segment, with the inclusion in 1997 of the aerospace and defense units acquired from Rockwell in December 1996, and spending in commercial space and communication activities. Research and development expense in 1998 will be influenced by the timing of potential commercial aircraft widebody derivative programs. Increases are planned in commercial space and communication activities in the defense, space and information systems segment, primarily driven by company-funded development of launch vehicles and other space and communication opportunities. Based on current programs and plans, research and development expense for 1998 is expected to be in the \$2.0 billion range.

Since the August 1997 merger of Boeing and McDonnell Douglas, the Information, Space & Defense Systems group has been actively working to identify and capture benefits arising from the integration of the two companies and the aerospace and defense units acquired from Rockwell. Extensive review of total capability is in progress, and detailed plans to optimize asset utilization throughout the Company will be implemented during 1998. The business group has organized itself for greater customer focus and enhanced program efficiencies, and the integration activity is progressing well.

Earnings declined in the defense, space and information systems segment from the prior year, primarily due to increased company-sponsored research and development expense and increased joint venture development expense associated with the Sea Launch and Civil Tiltrotor programs. Government funding for all major U.S. programs within the defense, space and information systems segment remains steady. The International Space Station program continues on plan for a midyear first-element launch. The first Delta III rocket launch is also planned for midyear. The 36th C-17 delivered to the U.S. Air Force in December and nine C-17s are scheduled to deliver in 1998.

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 defense, space and information systems segment, any major restructuring actions will be contingent on demonstration of cost savings for U.S. Government programs and the Company. The \$1.4 billion special charge in the fourth quarter does not include any costs that might be associated with these future decisions.

Forward-Looking Information Is Subject to Risk and Uncertainty

Certain statements in the financial discussion and analysis by management contain "forward-looking" information that involves risk and uncertainty, including projections for deliveries, sales, research and development expense, and other trend projections. Actual future results and trends may differ materially depending on a variety of factors, including the Company's successful execution of internal performance plans; continued integration of McDonnell Douglas Corporation; 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; performance issues with key suppliers and subcontractors; governmental export and import policies; factors that result in significant and prolonged disruption to air travel worldwide; global trade policies; worldwide political stability and economic conditions; changing priorities or reductions in the U.S. Government defense and space budgets; termination of government contracts due to unilateral government action or failure to perform; and legal proceedings.

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OPERATING AND FINANCIAL DATA

Deliveries

	Twelve Months		4th Quarter	
	1997	1996	1997	1996
Commercial jet aircraft				
737	132	76	39	23
737 Next-Generation	3		3	
747	39	26	9	10
757	46	42	12	8
767	41 *	42 *	7	13
777	59	32	10	8
MD-80	16	12	5	1
MD-90	26	24	10	16
MD-11	12	15	7	5
Total	374	269	102	84

Defense, space and information systems

C-17	7	6	2	1
F-15	19	11	9	2
F/A-18 C/D	46	32	9	5
F/A-18 C/D Kits	20	9	11	3
T-45TS	11	9	3	1
Delta II	12	11	3	3

Contractual backlog	Dec. 31	Sep. 30	Dec. 31
(Dollars in billions)	1997	1997	1996
Commercial aircraft	\$ 93.8	\$ 83.5	\$ 86.2
Defense, space and information systems	27.8	25.3	28.0
Total backlog	\$121.6	\$108.8	\$114.2

* Excludes one non-commercial 767 each year delivered to be modified as 767 AWACS for the Government of Japan.

The Boeing Company and Subsidiaries
Consolidated Statements of Operations
(Dollars in millions)
(Unaudited)

	Twelve months ended		Three months ended	
	December 31		December 31	
	1997	1996	1997	1996
Sales and other operating revenues	\$45,800	\$35,453	\$11,727	\$9,977
Operating costs and expenses	40,644	29,383	10,226	8,292
General and administrative expense	2,187	1,819	564	541
Research and development expense	1,924	1,633	460	412
Special charge	1,400		1,400	
	\$46,155	\$32,835	\$12,650	\$9,245
Earnings (loss) from operations	(355)	2,618	(923)	732
Other income, principally interest	428	388	125	117
Interest and debt expense	(513)	(393)	(148)	(98)
ShareValue Trust	99	(133)	141	(129)
Earnings (loss) before income taxes	(341)	2,480	(805)	622
Income taxes	(163)	662	(307)	178
Net earnings (loss)	\$ (178)	\$ 1,818	\$ (498)	\$ 444
Basic earnings (loss) per share	\$ (.18)	\$ 1.88	\$ (.51)	\$.46

<u>Diluted earnings (loss) per share</u>	<u>\$ (.18)</u>	<u>\$ 1.85</u>	<u>\$ (.51)</u>	<u>\$.46</u>
<u>Cash dividends per share</u>	<u>\$.56</u>	<u>\$.55</u>	<u>\$.14</u>	<u>\$.14</u>

Excluding the fourth quarter special charge and ShareValue Trust accounting:

Net earnings	\$ 632	\$ 1,905	\$ 290	\$ 528
Diluted earnings per share	\$.63	\$ 1.92	\$.29	\$.53

Note: All references to earnings (loss) per share in the text of this press release refer to diluted earnings per share.

The Boeing Company and Subsidiaries
Consolidated Statements of Financial Position
(Dollars in millions)
(Unaudited)

	December 31 1997	September 30 1997	December 31 1996
Assets			
Cash and cash equivalents	\$ 4,420	\$ 4,820	\$ 5,469
Short-term investments	729	730	883
Accounts receivable	3,121	3,312	2,870
Current portion of customer and commercial financing	261	354	774
Deferred income taxes	1,399	1,393	1,362
Inventories, net of advances and progress billings	8,967	10,543	9,151
Total current assets	18,897	21,152	20,509
Customer and commercial financing	4,339	3,641	3,114
Property, plant and equipment, net	8,391	8,314	8,266
Deferred income taxes	381	152	143
Goodwill	2,395	2,418	2,478
Prepaid pension expense	3,271	3,270	3,014
Other assets	350	427	356
	<u>\$38,024</u>	<u>\$39,374</u>	<u>\$37,880</u>
Liabilities and Shareholders' Equity			
Accounts payable and other liabilities	\$11,548	\$11,404	\$ 9,901
Advances in excess of related costs	1,575	1,971	1,714
Income taxes payable	298	361	474
Short-term debt and current portion of long-term debt	731	608	637
Total current liabilities	14,152	14,344	12,726
Accrued retiree health care	4,796	4,807	4,800
Long-term debt	6,123	6,353	6,852

Total liabilities	25,071	25,504	24,378
Common stock less treasury shares	6,081	6,225	5,886
Retained earnings	8,147	8,925	8,896
Unearned compensation	(20)	(22)	(22)
ShareValue Trust	(1,255)	(1,258)	(1,258)
Total shareholders' equity	12,953	13,870	13,502
	\$38,024	\$39,374	\$37,880

The Boeing Company and Subsidiaries
Consolidated Statements of Cash Flows

(Dollars in millions)

(Unaudited)

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

Cash and cash equivalents at end of year	\$ 4,420	\$ 5,469
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Note: The following business segment information reflects the adoption of Statement of Financial Accounting Standard No. 131, "Disclosures about Segments of an Enterprise and Related Information."

The Boeing Company and Subsidiaries
Business Segment Data
(Dollars in millions)
(Unaudited)

	Year ended December 31	
	1997	1996
Revenue:		
Commercial aircraft	\$26,929	\$19,916
Defense, space and information systems	18,125	14,934
Customer and commercial financing, other	746	603
<u>Operating revenues</u>	<u>\$45,800</u>	<u>\$35,453</u>
Operating profit (loss) by segment:		
Commercial aircraft	\$(1,837)	\$ 956
Defense, space and information systems	1,317	1,387
Customer and commercial financing, other	381	329
<u>Operating profit (loss)</u>	<u>\$ (139)</u>	<u>\$ 2,672</u>
Corporate investment income	\$ 428	\$ 388
Interest and debt expense	(513)	(393)
Unallocated expense	(216)	(54)
ShareValue Trust	99	(133)
<u>Pretax earnings (loss)</u>	<u>\$ (341)</u>	<u>\$ 2,480</u>
<u>Net earnings (loss)</u>	<u>\$ (178)</u>	<u>\$ 1,818</u>
Effective income tax rate	47.8%	26.7%
Research and development:		
Commercial aircraft	\$ 1,208	\$ 1,156
Defense, space and information systems	716	477
<u>Total research and development expense</u>	<u>\$ 1,924</u>	<u>\$ 1,633</u>

Commercial aircraft revenue of \$26.9 billion for the twelve months ended Dec. 31, 1997, included seven MD-80, five MD-90 and one MD-11 aircraft which were accounted for as operating leases, with minimal revenue recorded at the time of delivery. Commercial aircraft revenue of \$19.9 billion for the same period in 1996 included one MD-80, two MD-90s and two MD-11s which were accounted for as operating leases, and certain 7-series aircraft previously on operating lease which were converted to sales. Defense, space and information systems segment revenues of \$18.1 billion and \$14.9 billion for 1997 and 1996 were impacted by a 99-day strike at the St. Louis facilities, which ended in mid-September 1996 and delayed some deliveries from 1996 to 1997. Defense, space and information systems segment 1997 revenues include the first full year of the operations of the aerospace and defense units acquired from Rockwell International Corporation in December 1996.

The overall commercial aircraft segment operating profit margin, exclusive of research and development expense and the Douglas Products Division special charge, was less than 3% for the twelve months of 1997, compared with more than 10% for the prior two years. The lower overall commercial operating profit margin was attributable to the production inefficiencies associated with the rapid increase in production rates, the model mix of aircraft deliveries that included 27 more 777s in 1997 than in 1996, and continued pricing pressure. Margins for 1998 will be impacted by the relatively high percentage of 777 and Next-Generation 737 deliveries and previously announced production inefficiencies and pricing pressure. With regard to the 777 and Next-Generation 737 programs, new and major derivative 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.

The overall defense, space and information systems segment operating profit margin, exclusive of research and development expense, joint venture development costs expensed as incurred (\$102 million in 1997, compared with \$53 million in 1996) and contract settlements, was approximately 12% in both 1997 and 1996. Joint venture development costs are primarily associated with the Sea Launch and Civil Tiltrotor programs.

The defense, space and information systems segment had a higher level of development expense on commercial space and communication activities, including the Delta family of launch vehicles and other business opportunities, compared with the prior year. Commercial aircraft research and development expense for 1997 included the certification and first delivery of the 737-700 to Southwest Airlines in the fourth quarter; development efforts on the 737-600 and -800 models; development of the 757-300, a stretched derivative of the 757-200, which is scheduled to be delivered to launch customer Condor-Flugdienst in early 1999; and development of the 767-400ER, a stretched version of the 767-300ER, which is scheduled to be delivered to launch customer Delta Airlines in the year 2000. The 717-200 program (formerly the MD-95) continues in development, with first delivery to AirTran in 1999.

Interest and debt expense was \$120 million higher due to the debt assumed in the Rockwell acquisition and increases associated with the Boeing Capital Corporation subsidiary. In the fourth quarter of 1997, the Company made a fixed-spread tender offer for the 9¼% notes due April 1, 2002. As a result of the offer, the Company retired \$230 million in debt and recognized a pretax expense of \$29 million which is included in interest and debt expense.

The income tax provision for 1997 results in a tax benefit because the provision is applied to a pretax loss. The relatively high income tax rate of 47.8% reflects additional benefits, principally Foreign Sales Corporation tax benefits. 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. The effective income tax rate for 1998 is expected to be in the 35% range.

Contractual backlog increased in the fourth quarter of 1997 due to the previously announced orders from American, Delta and Continental Airlines being converted to definitive contracts. Not included in contractual backlog are purchase options and announced orders for which definitive contracts have not been executed. U.S. Government and foreign military backlog is limited to amounts obligated to contracts. Unobligated amounts under U.S. Government contracts not included in backlog at Dec. 31, 1997, total \$26.1 billion, compared with \$28.9 billion at Sept. 30, 1997, and \$29.7 billion at Dec. 31, 1996.

ShareValue Trust Accounting

The ShareValue Trust is a 12-year irrevocable trust that holds Boeing common stock, receives dividends, and distributes to employees appreciation in value above a 3% per annum threshold rate of return. In accordance with generally accepted accounting principles, the change in the potential distributable appreciation is reflected in earnings on a quarterly basis, and shares of the Trust are not considered outstanding for financial reporting purposes. Because the Trust is fully funded and is solely responsible for making any potential distributions, the Company supplementally discloses earnings and earnings per share excluding the ShareValue Trust accounting impact, while recognizing the shares held by the Trust as outstanding. Since inception of the Trust in July 1996, the distributable appreciation charged or credited to earnings on an after-tax basis is as follows:

	Quarter	Cumulative
<u>(Dollars in millions)</u>		
1996		
3rd quarter	\$ 3	\$ 3
4th quarter	84	87
1997		
1st quarter	(64)	23
2nd quarter	65	88
3rd quarter	21	109
4th quarter	(88)	21

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Contact:

Larry McCracken (206) 655-6123