

BOEING REPORTS 1998 2nd QUARTER AND FIRST HALF RESULTS

	2 nd Quarter		Six months ended June 30	
	1998	1997	1998	1997
(Dollars in millions except per share data)				
Sales and other operating revenues	\$13,389	\$12,343	\$26,330	\$22,702
Net earnings	\$258	\$476	\$308	\$1,016
Earnings per share *	\$.26	\$.48	\$.31	\$1.03
Average shares (millions) *	984.8	981.8	984.7	982.5

* Diluted

SEATTLE, July 23, 1998 – Sales of \$13.4 billion and net earnings of \$258 million, or \$.26 per share, for the three months ended June 30, 1998, were reported by Phil Condit, Boeing chairman and chief executive officer. Comparable figures for the same period of 1997 were sales of \$12.3 billion and net earnings of \$476 million, or \$.48 per share. The 1998 second quarter earnings were lower because of reduced commercial aircraft profit margins, including charges totaling \$78 million after-tax relating to the planned termination of the MD-11 program and additional late delivery costs associated with Next-Generation 737 aircraft.

Sales for the first six months of 1998 were \$26.3 billion and net earnings were \$308 million, or \$.31 per share. Comparable figures for 1997 were sales of \$22.7 billion and net earnings of \$1,016 million, or \$1.03 per share. The lower earnings for the six-month period reflect the reduced commercial aircraft margins, including the \$219 million after-tax loss on the Next-Generation 737 recorded in the first quarter.

Commercial Aircraft Programs

The higher sales for the first half and second quarter of 1998 were principally due to the increased level of commercial aircraft deliveries. A total of 247 jet aircraft were delivered, including two 757-C32A aircraft, compared with 183 in the first half of 1997. Although commercial aircraft deliveries and sales were higher, the overall profit margin for the commercial aircraft segment was significantly lower due to the model mix of deliveries, production inefficiencies associated with the rapid increase in the commercial aircraft production rates, continued pricing pressures and lower price-escalation trends. With regard to model mix, most of the sales increase was attributable to the new 777 and Next-Generation 737 programs. New commercial aircraft programs have lower operating profit margins due to higher unit production costs in the early years of a program. Additionally, because of production inefficiencies, extensive changes resulting from flight test and certification requirements, and lower revenue due to the mix of models and lower price escalation, the Next-Generation 737 program has been in a loss position based on the initial program accounting quantity of 400 units.

Condit noted that significant progress has been made on the production recovery plan for the Next-Generation 737 program. Based on that progress and certain long-term production replanning that extends well beyond the firm orders of over 800 Next-Generation 737 aircraft, the program accounting quantity was extended consistent with other established programs. However, no gross profit will be recorded on the Next-Generation 737 program prior to finalization of the production replanning and successful execution of the Next-Generation 737 production rate increase from 14 aircraft per month to 21 per month late in 1998. Condit stated that production schedule challenges

associated with this rate increase and general production efficiencies will continue to be aggressively managed, but that significant performance risks remain.

Operating profit margins on all commercial aircraft models continue to be affected by lower price-escalation trends and price pressures. The Company sells its products at base prices plus indexed changes for employment cost and producer price changes. Such changes have been significantly less than anticipated over the last two years.

Effective July 1, 1998, Boeing increased the base prices for most of its commercial aircraft and has revised the price-escalation formula to be more compatible with the competition. The Company does not expect an impact to revenues and profits before the year 2000 as a result of these changes due to the significant number of orders already placed by customers for delivery in the next two years.

The Company recently announced its plans to phase out MD-11 production, with the last delivery scheduled in the first quarter of 2000. This decision was made after months of assessing future sales prospects for the MD-11 jetliner, and determining that there is insufficient market demand to warrant continued production. The second quarter results include a valuation adjustment for assets and liabilities associated with the MD-11 program.

Commercial jet aircraft deliveries for 1998 are currently expected to be about 550 aircraft, including approximately 230 of the newer-model 737s and 777s. The delivery quantity is dependent on performing to the production plan and delivering the majority of approximately 20 aircraft currently in storage, which are principally associated with Asian customers affected by the economic recession in the region. The 747 production rate will increase from four to five airplanes per month and the 777 program will increase from five to seven airplanes per month in the third quarter of 1998. These wide-body production

rate increases and a large number of 747 freighters in the second half of 1998 represent performance and schedule risks that are being closely monitored.

The Company continues to assess the economic situation in Asia, which has the potential to impact future deliveries, particularly wide-body models. The 747 production rate is currently scheduled to be reduced in mid-1999 from five aircraft per month to three and a half per month. Production will continue to be adjusted to reflect customer requirements and the Company's capabilities.

Information, Space and Defense Systems (ISDS) Programs

Sales in the first six months of 1998 were 11% higher than the same period of 1997, principally due to increased military aircraft deliveries and three additional Delta II launch vehicles. Total ISDS sales for the year are expected to be in the \$19 billion to \$20 billion range. Operating margins for the first six months increased slightly from 7.3% in 1997 to 7.6% in 1998, principally due to improved performance on production programs, partially offset by increased research and development expense associated with commercial space and communication activities, and joint venture development costs for the Sea Launch program and the Bell Boeing 609 Civil Tiltrotor program.

The Sea Launch assembly and command ship and launch platform were completed in June. The assembly and command ship has arrived at its home port in Long Beach, California. The launch platform is on its way from Russian shipyards to the home port, and is scheduled to arrive later this summer. Full-scale preparations for first launch are under way. Boeing is a 40% partner in Sea Launch with RSC Energia (25%) from Russia, Kvaerner Maritime (20%) from Norway, and KB Yuzhnoye / PO Yuzhmash (15%) from Ukraine.

The Company previously announced a strategic decision to exit the market for commercial helicopters. As part of that strategy, the Company transferred its interest in the Bell Boeing 609 Civil Tiltrotor to Bell Helicopter Textron and has assumed a minor subcontractor role in the development program. Due to regulatory concerns, Boeing and Bell have jointly agreed to suspend efforts to sell the Boeing MD-500 and MD-600 single-engine helicopter lines to Bell Helicopter. The Company is seeking to find other potential buyers for its light commercial helicopter lines.

During the second quarter, the Information, Space and Defense Systems segment delivered the first two of four C-32A executive transports, which are modified Boeing 757-200s, for use in transporting U.S. Government officials. The remaining two C-32A transports will deliver later this year.

In the second quarter, the Company announced it will be the systems integrator and prime contractor as well as an equity investor in Ellipso. Ellipso is a satellite-based data and telecommunication venture that will bring affordable fixed, mobile and airborne voice and data telecommunications to new markets worldwide. Ellipso will focus on telephone service, but also will provide digital data transfer, fax, paging, voice mail, messaging and geopositioning services.

Boeing also announced it would remain as a founding industrial partner and investor in the Teledesic venture and intends to assume a role in launch services and system integration on the program. The Company remains committed to investing a minimum value of \$100 million in Teledesic.

Delta III, the newest, largest, and most powerful version of the highly reliable Delta family of expendable launch vehicles, is completing the company-funded development phase of the program. First launch is currently scheduled for later this summer, with a

commercial payload, Galaxy X, for Hughes Space & Communications, International. The second launch, also for Hughes, will be in the fourth quarter of 1998.

Financial Outlook for Full Year 1998 and 1999

The Company's financial performance has been significantly impacted by the production rate buildup problems and lower prices in the commercial aircraft segment. Condit noted that as the commercial production processes become stable, greater focus will be returned to production system initiatives to achieve the Company's goals for long-term operating efficiencies. He added that although the Company has not publicly forecast net earnings in the past and will do so in the future only as the Company determines on a case-by-case basis, the current outlook is affected by a variety of dynamic issues. Based on current schedules and plans, which include approximately 550 commercial aircraft deliveries for the full year 1998, or approximately \$56 billion in consolidated revenue, Condit said that net earnings for all of 1998 are currently projected in the range of \$1 billion. This forecast includes the already recorded additional Next-Generation 737 loss and MD-11 program termination costs. With comparable revenue projected for 1999, he stated that 1999 net earnings are expected to be about double 1998 net earnings based on current plans and schedules. Condit stated that the expected overall net margin improvement over 1998 and 1999 is impacted by the price-escalation trends, the uncertainty of the Asian economic impact on wide-body sales, the mix of model deliveries and delays in full implementation of production system initiatives.

Condit added that the opportunities for significantly improved financial performance beyond 1999 are excellent. In addition to stock incentives which have significant performance hurdles for executive management, longer-term financial goals have been established to help ensure that the Company's fundamental goal of improving shareholder

value over the long term is aggressively pursued. These long-term goals address net margins, asset utilization and efficient deployment of cash, which are set forth in a separate, concurrent release.

Forward-Looking Information Is Subject to Risk and Uncertainty

Certain statements in this release contain “forward-looking” information that involves risk and uncertainty, including projections for production rates, deliveries, customer financing, sales, revenues, margins, earnings, cash, research and development expense, employment, asset utilization, and other trend projections. This forward-looking information is based upon a number of assumptions, including assumptions regarding demand, internal performance, customer financing, supplier and subcontractor performance, government policies and actions, and escalation. Actual future results and trends may differ materially depending on a variety of factors, including the Company’s successful execution of internal performance plans including production recovery and production rate increases; the cyclical nature of the Company’s business; volatility of the market for certain products; 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, subcontractors and customers; 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, particularly in Asia; price escalation trends; 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. Additional information regarding these factors is contained in the Company's Annual Report on Form 10-K for the year ended 1997 and Form 10-Q for the quarterly period ended March 31, 1998.

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The Boeing Company and Subsidiaries
Consolidated Statements of Operations
(Dollars in millions except per share data)
(Unaudited)

	Six months ended		Three months ended	
	June 30		June 30	
	1998	1997	1998	1997
Sales and other operating revenues	\$26,330	\$22,702	\$13,389	\$12,343
Operating costs and expenses	23,814	19,174	11,976	10,499
General and administrative expense	960	973	467	508
Research and development expense	976	1,008	489	529
Share-based plans	63	2	41	100
	25,813	21,157	12,973	11,636
Earnings from operations	517	1,545	416	707
Other income, principally interest	149	183	64	80
Interest and debt expense	(227)	(243)	(114)	(112)
Earnings before income taxes	439	1,485	366	675
Income taxes	131	469	108	199
Net earnings	\$ 308	\$ 1,016	\$ 258	\$ 476
Basic earnings per share	\$.32	\$1.05	\$.26	\$.49
Diluted earnings per share	\$.31	\$1.03	\$.26	\$.48
Cash dividends per share	\$.28	\$.28	\$.14	\$.14

Excluding the share-based plans:

Net earnings	\$347	\$1,017	\$283	\$541
Diluted earnings per share	\$.35	\$1.01	\$.29	\$.54

Note: All references to earnings 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)

	June 30	December 31
	1998	1997
Assets		
Cash and cash equivalents	\$ 3,154	\$ 4,420
Short-term investments	302	729
Accounts receivable	3,235	3,121
Current portion of customer and commercial financing	227	261
Deferred income taxes	1,715	1,765
Inventories, net of advances and progress billings	10,192	8,967
Total current assets	18,825	19,263
Customer and commercial financing	4,403	4,339
Property, plant and equipment, net	8,528	8,391
Deferred income taxes	145	15
Goodwill	2,353	2,395
Prepaid pension expense	3,363	3,271
Other assets	325	350
	\$37,942	\$38,024

Liabilities and Shareholders' Equity

Accounts payable and other liabilities	\$11,319	\$11,548
Advances in excess of related costs	1,357	1,575
Income taxes payable	575	298
Short-term debt and current portion of long-term debt	365	731
Total current liabilities	13,616	14,152
Accrued retiree health care	4,792	4,796
Long-term debt	6,438	6,123
Total liabilities	24,846	25,071
Common stock less treasury shares	6,488	6,081

Retained earnings	8,311	8,147
Unearned compensation	(16)	(20)
ShareValue Trust	(1,687)	(1,255)
Total shareholders' equity	13,096	12,953
	\$37,942	\$38,024

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

	Six months ended June 30	
	1998	1997
Cash flows - operating activities:		
Net earnings	\$ 308	\$ 1,016
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based plans	63	2
Depreciation and amortization	804	731
Changes in assets and liabilities –		
Short-term investments	427	(85)
Accounts receivable	(114)	(128)
Inventories, net of advances and progress billings	(1,225)	(973)
Accounts payable and other liabilities	(85)	958
Advances in excess of related costs	(218)	166
Income taxes payable and deferred	197	318
Other assets	(77)	(363)
Accrued retiree health care	(4)	3
Net cash provided by operating activities	76	1,645
Cash flows - investing activities:		
Customer financing and properties on lease - additions	(451)	(598)
Customer financing and properties on lease - reductions	368	432
Property, plant and equipment, net additions	(836)	(672)
Net cash used by investing activities	(919)	(838)
Cash flows - financing activities:		
New borrowings	414	78
Debt repayments	(465)	(524)
Common shares purchased	(115)	
Stock options exercised, other	26	2
Dividends paid	(283)	(252)
Net cash used by financing activities	(423)	(696)
Net increase (decrease) in cash and cash equivalents	(1,266)	111
Cash and cash equivalents at beginning of year	4,420	5,469

Cash and cash equivalents at end of 2nd quarter	\$ 3,154	\$ 5,580
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The Boeing Company and Subsidiaries
Business Segment Data
(Dollars in millions)
(Unaudited)

	Six months ended June 30		Three months ended June 30	
	1998	1997	1998	1997
Revenues:				
Commercial Aircraft	\$16,432	\$13,819	\$ 8,466	\$ 7,937
Information, Space and Defense Systems	9,483	8,528	4,711	4,208
Customer and Commercial Financing, Other	415	355	212	198
Operating revenues	\$26,330	\$22,702	\$13,389	\$12,343
Earnings (loss) from operations:				
Commercial Aircraft	\$ (261)	\$ 777	\$ (10)	\$ 468
Information, Space and Defense Systems	717	626	421	261
Customer and Commercial Financing, Other	243	232	117	138
Unallocated expense	(119)	(88)	(71)	(60)
Share-based plans	(63)	(2)	(41)	(100)
Operating earnings	\$ 517	\$ 1,545	\$ 416	\$ 707
Other income, principally interest	149	183	64	80
Interest and debt expense	(227)	(243)	(114)	(112)
Earnings before income taxes	\$ 439	\$ 1,485	\$ 366	\$ 675
Net earnings	\$ 308	\$ 1,016	\$ 258	\$ 476
Effective income tax rate	29.8%	31.6%	29.5%	29.5%
Research and development:				
Commercial Aircraft	\$ 564	\$ 694	\$ 281	\$ 358
Information, Space and Defense Systems	412	314	208	171
Total research and development expense	\$ 976	\$ 1,008	\$ 489	\$ 529

OPERATING AND FINANCIAL DATA

Deliveries	Six Months	2 nd Quarter
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Commercial Aircraft	1998	1997	1998	1997
737	67	60	33	35
737 Next-Generation	50	-	38	-
747	21	22	9	12
757	23	24	12	12
767	24	23	14	12
777	37	31	17	21
MD-80	3	8	1	8
MD-90	14	11	10	4
MD-11	6	4	3	2
Total	245	183	137	106

Information, Space and Defense Systems

C-17	4	3	2	1
F-15	13	7	6	5
F/A-18 C/D	16	23	6	12
F/A-18 C/D Kits	-	4	-	1
T-45TS	7	3	3	3
CH-47	6	-	3	-
767 AWACS	2	-	-	-
757-C32A	2	-	2	-
Delta II	7	4	3	2

June 30 Mar. 31 Dec. 31

Contractual backlog (Dollars in billions)	1998	1998	1997
Commercial Aircraft	\$ 91.8	\$ 92.4	\$ 93.8
Information, Space and Defense Systems	30.0	28.5	27.8
Total contractual backlog	\$121.8	\$120.9	\$121.6

June 30, 1998, workforce 238,000

Operating and Financial Data Comments

Commercial Aircraft segment deliveries in the first half of 1998 included two MD-11 aircraft accounted for as operating leases. Commercial Aircraft deliveries for the same period in 1997 included one MD-80 and two MD-90s that were accounted for as operating leases.

The overall Commercial Aircraft segment operating profit margin, exclusive of the additional Next-Generation 737 forward loss and MD-11 valuation adjustment, was 1.3% for the first six months of 1998, compared with 5.6% for the same period in 1997. The lower margin was attributable to the production inefficiencies associated with the rapid increase in production rates, the model mix of aircraft deliveries that included six more 777s and 50 Next-Generation 737s in the first half of 1998 than during the same period in 1997, and continued pricing pressure. Margins for the balance of 1998 will continue to reflect the relatively high percentage of 777 and Next-Generation 737 deliveries and previously announced production inefficiencies, continued pricing pressures, and lower price-escalation trends. No gross profit will be recognized for the Next-Generation 737 program prior to finalization of the production replanning and successful execution of the Next-Generation 737 production rate increase from 14 aircraft per month to 21 per month late in 1998. Commercial Aircraft research and development expense for the first six months of 1998 was lower on the Next-Generation 737 models than for the same period in 1997. Development continues on the 757-300, a stretched derivative of the 757-200, which is scheduled to be delivered in early 1999; the 767-400ER, a stretched version of the 767-300ER, which is scheduled to be delivered in the year 2000; and the increased-capacity version of the 777-300, with certification and first delivery occurring in May 1998. The 717-200 program (formerly the MD-95) continues in development, with flight test scheduled to begin later this year and first delivery planned for mid-1999.

Information, Space and Defense Systems segment operating revenues for the first half of 1998 were \$9.5 billion, an increase of \$1.0 billion, compared with the same period in 1997. The segment consists of four business units: McDonnell Aircraft and Missile Systems, Information and Communications Systems, Space Transportation, and Phantom Works, with first-half operating revenues of 60%, 19%, 18% and 3%, respectively, of total segment revenues.

The overall Information, Space and Defense Systems segment operating profit margin was 7.6% in the first half of 1998, compared with 7.3% for the same period in 1997. Operating margins increased due to improved performance on production programs, partially offset by increased research and development expense and joint venture development costs (\$72 million in 1998, compared with \$40 million in 1997) for the Sea Launch and Civil Tiltrotor programs. The Information, Space and Defense 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 first half 1997.

Based on current programs and plans, research and development expense for 1998 is expected to be in the \$1.9 billion to \$2.0 billion range.

Other income was \$34 million less in the first half of 1998 than in the same period in 1997 due primarily to a lower cash and short-term investments balance.

The income tax provision for the first half of 1998 of 29.8% is lower than the 31.6% for the same period in 1997 due principally to an increase in Foreign Sales Corporation tax benefits in 1998.

Cash and short-term investments decreased by \$1.7 billion in the first half of 1998 due in large part to the increase in inventory related to production increases on the 737, 747 and 757 programs, behind-schedule deliveries, and the completed aircraft in

temporary storage pending completion of financing arrangements and re-marketing activities.

The contractual backlog balance does not include purchase options and announced orders for which definitive contracts have not been executed. U.S. Government and foreign military backlog is limited to amounts that are contractually obligated. Unobligated amounts under U.S. Government contracts not included in backlog at June 30, 1998, total \$24.9 billion, compared with \$23.4 billion at March 31, 1998, and \$26.1 billion at December 31, 1997.

Accounting for Share-Based Plans

Beginning in the first quarter of 1998, the Company adopted the expense recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." The adoption of SFAS No. 123 will principally affect the accounting for Performance Share awards, the ShareValue Trust plan, and stock options.

On February 23, 1998, the Company awarded approximately 3.9 million Performance Shares to executive management. Performance Shares are convertible to common stock at the time the stock price reaches and maintains certain threshold levels for 20 consecutive days. These threshold levels represent predetermined compound five-year growth rates relative to the stock price on the date of the award. In accordance with SFAS No. 123, the Company will recognize the associated expense over the five-year award period.

The ShareValue Trust is a 14-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. The expense recognition method for the ShareValue

Trust plan under SFAS No. 123 is based upon the fair value of the total expected distributions, determined by applying an option pricing model. The fair value of the expected distributions under the option pricing model is recognized over the life of the plan regardless of actual distributions. On June 30, 1998, the first investment period of the trust ended with a fund appreciation insufficient to generate a distribution to employees.

The Company granted stock options during the second quarter of 1998, and recognized \$10 million of expense in accordance with the provisions of SFAS No. 123.

The various share-based plans are expected to result in a combined pretax expense of approximately \$145 million for 1998. 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.

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