

BOEING REPORTS 1998 3rd QUARTER AND NINE MONTHS RESULTS

	3rd Quarter		Nine months September 30	
	1998	1997	1998	1997
<hr/> (Dollars in millions except per share data) <hr/>				
Sales and other operating revenues	\$12,717	\$11,371	\$39,047	\$34,073
Net earnings (loss)	\$347	\$(696)	\$655	\$320
Earnings (loss) per share *	\$.36	\$(.72)	\$.67	\$.33
Average shares (millions) *	977.3	972.3	982.4	984.5

* Diluted

SEATTLE, Oct. 22, 1998 – Sales of \$12.7 billion and net earnings of \$347 million, or \$.36 per share, for the three months ended Sept. 30, 1998, were reported by Phil Condit, Boeing chairman and chief executive officer. Comparable figures for the same period of 1997 were sales of \$11.4 billion and a net loss of \$696 million, or \$.72 per share. Earnings for the quarter included recognition of tax benefits related to settlement of prior years' defense-related partnership research and development tax credits amounting to \$57 million, or \$.06 per share. The 1997 third quarter results were reduced by approximately \$1.0 billion after tax, reflecting the financial impact of unplanned and abnormal production inefficiencies and late-delivery costs associated with accelerated production increases on commercial aircraft programs.

Sales for the first nine months of 1998 were \$39.0 billion and net earnings were \$655 million, or \$.67 per share. Comparable figures for 1997 were sales of \$34.1 billion and net earnings of \$320 million, or \$.33 per share.

In the third quarter, the Company announced a share repurchase program with Board authorization to repurchase up to 15 percent of the Company's outstanding shares of common stock. During Sept., the Company repurchased 10.6 million shares of stock (approximately 1 percent of outstanding stock) for \$364 million.

Commercial Aircraft Programs

The higher sales for the first nine months and third quarter of 1998 were principally due to the increased level of commercial aircraft deliveries. A total of 370 jet aircraft were delivered, including two 757/C-32A aircraft, compared with 272 in the first nine months of 1997. Although commercial aircraft deliveries and sales were higher, the overall profit margin for the commercial aircraft segment, excluding forward losses, valuation adjustments and research and development expense, was lower due to the model mix of deliveries, 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, no gross profit has yet been recognized for the Next-Generation 737 program, for which losses had previously been recognized, including \$350 million pretax in the first quarter of 1998.

The Company previously announced its plans to phase out MD-11 production, with the final MD-11 deliveries now scheduled for 2001. Results for the first nine months of 1998 include a valuation adjustment associated with the MD-11 program that was recorded in the second quarter of 1998.

Operating profit margins on all commercial aircraft models have been and will 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 during the last two years.

During the third quarter, the 747 production rate increased from four to five airplanes per month, and the 777 program production rate increased from five to seven airplanes per month. The Next-Generation 737 program production rate is currently increasing from 14 aircraft per month to 21 per month. Condit stated that production schedule challenges and

general production efficiencies will continue to be aggressively managed, but that significant performance risks remain.

Commercial jet aircraft deliveries for 1998 are currently expected to be about 550 aircraft, including approximately 235 of the newer-model 737s and 777s. The delivery quantity is dependent on performing to the production plan and delivering the majority of 36 aircraft in storage as of Sept. 30, 1998, which are principally associated with Asian customers affected by adverse economic conditions in the region and customers awaiting final financing arrangements.

The Company continues to assess the economic situation in Asia, which presents a significant risk to deliveries over the next few years, particularly for twin-aisle models. The 747 production rate is currently scheduled to be reduced in the second quarter of 1999 from five aircraft per month to three and a half per month. The 777 production rate is currently scheduled to be reduced in the fourth quarter of 1999 from seven to five per month, with a previously announced plan to return to seven per month in 2000. Scheduled production rates are being reassessed, and downward revisions are expected to be made based on customer requirements.

In September, Condit announced a significant management and organizational realignment to address financial and production performance issues in the Commercial Aircraft segment.

Information, Space and Defense Systems (ISDS) Programs

Total ISDS sales in the first nine months of 1998 were approximately 8 percent higher than during the same period of 1997, principally due to increased military aircraft deliveries. Total ISDS sales for the year are expected to be in the \$19 billion to \$20 billion range. Operating margins for the first nine months decreased slightly from 7.6 percent in 1997 to 7.5 percent in 1998, principally due to 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 the launch platform were completed in June. They have both arrived at the home port in Long Beach, Calif. Full-scale preparations for first launch are underway after reinstatement by the U.S. State Department of the Sea Launch license that was withdrawn on July 27 following disclosure by Boeing that technical information may have been transferred without proper approval. Because of the risk associated with new launch activities, the first launch will be a demonstration payload. Boeing is a 40 percent partner in Sea Launch with RSC Energia (25 percent) from Russia, Kvaerner Maritime (20 percent) from Norway, and KB Yuzhnoye / PO Yuzhmash (15 percent) from Ukraine.

In August, a Delta III, the newest version of the Delta family of expendable launch vehicles, was lost during first launch approximately one minute and 20 seconds into flight. The failed launch was insured, and the impact to earnings is limited to the cost of accident investigation and corrective actions. The control system has been identified as the likely cause, and corrective actions are being taken to ensure that the Delta III is ready for flight in early 1999.

In October, the U.S. Air Force announced the procurement of 19 Delta IV launches for the Evolved Expendable Launch Vehicle (EELV) program valued at \$1.38 billion. The Air Force entered into a \$500 million agreement with Boeing to supplement development of the Delta IV family of launch vehicles to meet all Air Force EELV requirements. First launch of the Boeing Delta IV is scheduled for 2001 with a commercial payload.

“The excellent work of the ISDS management team during the past year has allowed us to further consolidate four operating units that comprise ISDS into two,” Condit said. During the third quarter, he announced the formation of the Space and Communications Group, based in Seal Beach, Calif., and the Military Aircraft and Missile Systems Group, headquartered in St. Louis. Year-end 1998 results for ISDS will be reported as two separate segments, consistent with this reorganization and the Company’s internal performance reporting.

Financial Outlook for Full Year 1998 and 1999

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 1998 are currently projected to be slightly above \$1 billion. With comparable revenue projected for 1999, he stated that 1999 net earnings are expected to be in the range of \$2 billion, based on current plans and schedules. Condit stated that the deliveries, revenues, and overall net margin improvement would be affected by commercial production efficiencies, price-escalation trends, implications of the unfavorable Asian economic conditions, the model mix of aircraft deliveries, and the timing of implementation of production system initiatives. The Company's Information, Space and Defense Systems segment is highly sensitive to changes in national priorities, U.S. Government defense and space budgets, and success in pursuing commercial-type business opportunities.

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, customer, supplier and subcontractor performance, government policies and actions, and price-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 research and development, production recovery, production rate increases, production system initiatives and other cost-reduction efforts; 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 June 30, 1998.

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

	Nine months ended		Three months ended	
	September 30		September 30	
	1998	1997	1998	1997
Sales and other operating revenues	\$39,047	\$34,073	\$12,717	\$11,371
Operating costs and expenses	35,079	30,418	11,265	11,244
General and administrative expense	1,488	1,623	528	650
Research and development expense	1,431	1,464	455	456
Share-based plans	106	42	43	40
	38,104	33,547	12,291	12,390
Earnings (loss) from operations	943	526	426	(1,019)
Other income, principally interest	241	303	92	120
Interest and debt expense	(341)	(365)	(114)	(122)
Earnings (loss) before income taxes	843	464	404	(1,021)
Income taxes	188	144	57	(325)
Net earnings (loss)	\$ 655	\$ 320	\$ 347	\$ (696)
Basic earnings (loss) per share	\$.67	\$.33	\$.36	\$ (.72)
Diluted earnings (loss) per share	\$.67	\$.33	\$.36	\$ (.72)
Cash dividends per share	\$.42	\$.42	\$.14	\$.14

Excluding the share-based plans:

Net earnings (loss)	\$ 722	\$ 346	\$ 375	\$ (675)
Diluted earnings (loss) per share	\$.73	\$.35	\$.38	\$ (.67)

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)

	September 30	December 31
	1998	1997
Assets		
Cash and cash equivalents	\$ 2,435	\$ 4,420
Short-term investments	279	729
Accounts receivable	3,255	3,121
Current portion of customer and commercial financing	126	261
Deferred income taxes	1,674	1,765
Inventories, net of advances and progress billings	10,531	8,967
Total current assets	18,300	19,263
Customer and commercial financing	4,373	4,339
Property, plant and equipment, net	8,552	8,391
Deferred income taxes	232	15
Goodwill	2,333	2,395
Prepaid pension expense	3,409	3,271
Other assets	424	350
	\$37,623	\$38,024
Liabilities and Shareholders' Equity		
Accounts payable and other liabilities	\$10,909	\$11,548
Advances in excess of related costs	1,484	1,575
Income taxes payable	674	298
Short-term debt and current portion of long-term debt	228	731
Total current liabilities	13,295	14,152
Accrued retiree health care	4,789	4,796
Long-term debt	6,567	6,123
Total liabilities	24,651	25,071
Common stock less treasury shares	5,813	6,081
Retained earnings	8,518	8,147
Unearned compensation	(18)	(20)
ShareValue Trust	(1,341)	(1,255)
Total shareholders' equity	12,972	12,953
	\$37,623	\$38,024

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

	Nine months ended September 30	
	1998	1997
Cash flows - operating activities:		
Net earnings	\$ 655	\$ 320
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based plans	106	42
Depreciation and amortization	1,225	1,106
Changes in assets and liabilities –		
Short-term investments	450	153
Accounts receivable	(134)	(442)
Inventories, net of advances and progress billings	(1,564)	(1,392)
Accounts payable and other liabilities	(492)	1,633
Advances in excess of related costs	(91)	257
Income taxes payable and deferred	250	(153)
Other assets	(227)	(345)
Accrued retiree health care	(7)	7
Net cash provided by operating activities	171	1,186
Cash flows - investing activities:		
Customer financing and properties on lease – additions	(978)	(928)
Customer financing and properties on lease – reductions	983	751
Property, plant and equipment, net additions	(1,213)	(1,006)
Net cash used by investing activities	(1,208)	(1,183)
Cash flows – financing activities:		
New borrowings	548	66
Debt repayments	(607)	(594)
Common shares purchased	(479)	(118)
Common shares issued		268
Stock options exercised, other	15	143
Dividends paid	(425)	(417)
Net cash used by financing activities	(948)	(652)
Net decrease in cash and cash equivalents	(1,985)	(649)
Cash and cash equivalents at beginning of year	4,420	5,469
Cash and cash equivalents at end of 3rd quarter	\$ 2,435	\$ 4,820

The Boeing Company and Subsidiaries
Business Segment Data

(Dollars in millions)
(Unaudited)

	Nine months ended September 30		Three months ended September 30	
	1998	1997	1998	1997
Revenues:				
Commercial Aircraft	\$24,151	\$20,248	\$ 7,719	\$ 6,429
Information, Space and Defense Systems	14,318	13,293	4,835	4,765
Customer and Commercial Financing, Other	578	532	163	177
Operating revenues	\$39,047	\$34,073	\$12,717	\$11,371
Earnings (loss) from operations:				
Commercial Aircraft	\$ (184)	\$ (593)	\$ 77	\$ (1,370)
Information, Space and Defense Systems	1,079	1,008	362	382
Customer and Commercial Financing, Other	340	305	97	73
Unallocated expense	(186)	(152)	(67)	(64)
Share-based plans	(106)	(42)	(43)	(40)
Operating earnings (loss)	\$ 943	\$ 526	\$ 426	\$ (1,019)
Other income, principally interest	241	303	92	120
Interest and debt expense	(341)	(365)	(114)	(122)
Earnings (loss) before income taxes	\$ 843	\$ 464	\$ 404	\$ (1,021)
Net earnings (loss)	\$ 655	\$ 320	\$ 347	\$ (696)
Effective income tax rate	22.3%	31.0%	14.1%	31.8%
Research and development:				
Commercial Aircraft	\$ 799	\$ 942	\$ 235	\$ 248
Information, Space and Defense Systems	632	522	220	208
Total research and development expense	\$ 1,431	\$ 1,464	\$ 455	\$ 456

OPERATING AND FINANCIAL DATA

Deliveries	Nine Months		3rd Quarter	
	1998	1997	1998	1997
Commercial Aircraft				
737	92	93	25	33
737 Next-Generation	91	-	41	-
747	32	30	11	8
757	35	34	12	10
767	35	34	11	11
777	52	49	15	18
MD-80	5	11	2	3
MD-90	18	16	4	5
MD-11	8	5	2	1
Total	368	272	123	89

Information, Space and Defense Systems

C-17	6	5	2	2
F-15	25	10	12	3
F/A-18 C/D	24	37	8	14
F/A-18 C/D Kits	-	9	-	5
T-45TS	11	8	4	5
CH-47	14	-	8	-
767 AWACS	2	-	-	-
757/C-32A	2	-	-	-
Delta II	8	9	1	5
Delta III	1	-	1	-

	Sept. 30	June 30	Dec. 31
Contractual backlog (Dollars in billions)	1998	1998	1997
Commercial Aircraft	\$ 92.9	\$ 91.8	\$ 93.8
Information, Space and Defense Systems	27.6	30.0	27.8
Total contractual backlog	\$120.5	\$121.8	\$121.6

Workforce	235,000	238,000	238,000
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Operating and Financial Data Comments

The overall Commercial Aircraft segment operating profit margin, exclusive of the Next-Generation 737 forward loss, MD-11 valuation adjustment, and research and development expense, was 4.5 percent for the first nine months of 1998, compared with 5.2 percent for the same period in 1997. The lower margin was principally attributable to the model mix of aircraft deliveries that included four more 777s and 91 Next-Generation 737s in the first nine months of 1998 than during the same period in 1997, lower price-escalation trends 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 until successful execution of the production rate increases on the program has been demonstrated.

Commercial Aircraft segment research and development expense for the first nine months of 1998 was lower on the Next-Generation 737 models and the 777-300, an increased-capacity version of the 777, 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, and the 767-400ER, a stretched version of the 767-300ER, which is scheduled to be delivered in the year 2000. The 717-200 program (formerly the MD-95) continues in development, with first delivery planned for mid-1999.

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

Information, Space and Defense Systems (ISDS) segment operating revenues for the first nine months of 1998 were \$14.3 billion, an increase of \$1.0 billion, compared with the same period in 1997, principally due to increased military aircraft deliveries. The segment consists of the two new realigned business units, Military Aircraft and Missile Systems Group,

and Space and Communications Group, with nine-month operating revenues of 64 percent and 36 percent, respectively, of total segment revenues.

The overall ISDS segment operating profit margin was 7.5 percent in the first nine months of 1998, compared with 7.6 percent for the same period in 1997. Operating margins decreased due to increased research and development expense and joint venture development costs (\$109 million in 1998, compared with \$64 million in 1997) for the Sea Launch and Civil Tiltrotor programs, partially offset by favorable performance on production programs. The ISDS 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 nine months of 1997.

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

Other income was \$62 million lower in the first nine months of 1998 than during the same period in 1997 primarily due to lower cash and short-term investment balances.

The income tax provision of 29.1 percent for the first nine months of 1998, exclusive of the settlement of prior years' defense-related partnership research and development tax credits of \$57 million, is lower than the 31.0 percent 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 \$2.4 billion during the first nine months of 1998 largely due to the increase in inventory related to production increases on the 737, 747, 757 and 777 programs, behind-schedule deliveries, and the completed aircraft in temporary storage pending completion of financing arrangements and re-marketing activities. In addition, in Sept. the Company repurchased 10.6 million shares of stock for \$364 million, consistent with the recently announced share repurchase program.

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 Sept. 30, 1998, total \$24.9 billion, compared with \$24.9 billion at June 30, 1998, and \$26.1 billion at Dec. 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 Feb. 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 percent 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 various share-based plans are expected to result in a combined pretax expense of approximately \$150 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.

The Boeing Company

Near-term Projections

(Dollars in Billions)

YTD

Projections for the Year

	<u>9/30/98</u>	<u>1998</u>	<u>1999</u>
Deliveries:			
Commercial Aircraft:			
717	0	0	12
737	92	114	44
737 Next-Generation	91	164	276
747	32	49	48
757	35	50	66
767	35	47	41
777	52	71	85
MD80/90	23	39	40
MD-11	8	12	8
Total	<u>(1) 368</u>	<u>(1) 546</u>	<u>(1) 620</u>

Information, Space and Defense
Systems major programs:

C-17	6	9	12
F-15	25	37	40
F/A-18 C/D	24	27	25
F/A-18 E/F (2)	--	--	12
T-45TS	11	15	13
767 AWACS	2	2	2
757 C-32A	2	4	--
Delta II	8	13	13
Delta III	1	1	3

Revenues:

Commercial Aircraft	\$ 24.2	\$ 35 - 36	\$ 37 - 39
Information, Space and Defense Systems	14.3	19 - 20	19 - 20
Total operating revenues	39.0	55 - 56	57 - 59

(1) Includes aircraft delivered under operating lease and excludes 757 C-32A (military versions)

(2) First 12 of F/A-18 E/F aircraft are under a cost type contract, sales are recognized as work progresses rather than upon delivery.

The Boeing Company

Near-term Projections

(Dollars in Billions)

	<u>YTD</u>	<u>Projections for the Year</u>	
	<u>9/30/98</u>	<u>1998</u>	<u>1999</u>
Research and development:			
Commercial Aircraft	\$ 0.8	\$ 1.0 - 1.1	\$ 0.8 - 0.9

Information, Space and Defense Systems	0.6	0.8 - 0.9	0.8 - 0.9
Total research and development	1.4	1.9 - 2.0	1.6 - 1.8

Operating earnings return on sales margins:

Commercial Aircraft	-0.1%	0% - 1%	2% - 4%
Information, Space and Defense Systems	7.5%	7% - 8%	7% - 9%
Composite operating earnings margins	2.4%	2.5% - 3.5%	4.5% - 6%

Total Company

Employment in thousands	235	230 - 235	210 - 220
Capital expenditures	\$ 1.2	\$ 1.6 - 1.8	\$ 1.7 - 1.9
Depreciation and amortization	\$ 1.2	\$ 1.6 - 1.8	\$ 1.8 - 1.9

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, customer, supplier and subcontractor performance, government policies and actions, and price-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 research and development, production recovery, production rate increases, production system initiatives and other cost-reduction efforts; 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 June 30, 1998.

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