

The Boeing Company
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BOEING REPORTS 1998 FOURTH QUARTER AND FULL YEAR RESULTS

	4 th Quarter		Year ended December 31	
	1998	1997	1998	1997
(Dollars in millions except per share data)				
Sales and other operating revenues	\$17,099	\$11,727	\$56,154	\$45,800
Net earnings (loss)	\$465	\$(498)	\$1,120	\$(178)
Earnings (loss) per share *	\$.48	\$(.51)	\$1.15	\$(.18)
Average shares (millions) *	960.8	985.5	976.7	984.5

* Diluted

SEATTLE, Jan. 26, 1999 – Sales of \$17.1 billion and net earnings of \$465 million, or \$.48 per share, for the fourth quarter of 1998 were reported by Phil Condit, Boeing chairman and chief executive officer. Comparable figures for 1997 were sales of \$11.7 billion and a net loss of \$498 million, or \$.51 per share. Earnings for the fourth quarter of 1998 included recognition of tax benefits related to the extension of research and development tax credits amounting to \$30 million, or \$.03 per share. The 1997 fourth quarter results were reduced by a special charge for commercial aircraft product lines of the former McDonnell Douglas Corporation of \$876 million after tax, or \$.89 per share.

Sales for the full year of 1998 were \$56.2 billion and net earnings were \$1,120 million, or \$1.15 per share. Comparable figures for 1997 were sales of \$45.8 billion and a net loss of \$178 million, or \$.18 per share. Excluding the fourth quarter 1997 special charge mentioned above, 1997 earnings were \$698 million, or \$.71 per share.

In the third quarter, the Company announced a share repurchase program to repurchase up to 15 percent of the Company's outstanding shares of common stock. As of

year-end 1998, the Company repurchased 35.2 million shares of stock (approximately 3.5 percent of outstanding stock) for \$1.3 billion.

The Commercial Aircraft revenues for the full year of 1998 were \$35.5 billion, an increase of \$8.6 billion over 1997. A total of 559 jet aircraft were delivered, (not including four 757/C-32A aircraft for the U.S. Government), compared with 374 in the full year of 1997. The overall earnings from operations margin for the Commercial Aircraft segment, excluding forward losses, valuation adjustments and research and development expense, was approximately 4 percent for 1998 compared with approximately 5 percent in 1997. This lower margin was principally attributable to the model mix of aircraft deliveries that included 15 more 777s and 162 more Next-Generation 737s in 1998 than during 1997, lower price-escalation trends and continued pricing pressures. Earnings from operations margin for 1999 will continue to reflect the relatively high percentage of 777 and Next-Generation 737 deliveries, continued pricing pressures and lower price-escalation trends. New commercial aircraft programs have lower gross 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.

Fourth quarter 1998 commercial aircraft deliveries totaled 191, or 13 more than had been previously projected due to the timing of delivery of aircraft that had been placed in storage. Some of these deliveries are under short-term operating leases provided as bridge financing. Commercial jet aircraft deliveries for 1999 continue to be projected in the range of 620 aircraft, including approximately 360 777s and Next-Generation 737s.

Commercial aircraft deliveries for 2000 are currently projected to be in the range of 480 aircraft, not including three Next-Generation 737s for the C-40 program and one 747 for the Airborne Laser program. The latest projections for 2000, compared with previous projections, reflect a reduction in 777 deliveries, and assume a slight increase in the 747 deliveries. Delivery schedules will continue to be adjusted to reflect economic trends and customer demands.

Condit noted that the commercial airplane production processes continue to demonstrate improvement consistent with the program production plans, and the Company continues to make the productivity investments that are key to achieving the Company's performance and financial goals.

In 1998, the Information, Space and Defense Systems Group of the Company was reorganized into two separate groups, the Military Aircraft and Missile Systems Group and the Space and Communications Group, which are reported as separate business segments for 1998 and on.

Information, Space and Defense Systems (ISDS) segment operating revenues for the year were \$19.9 billion, an increase of \$1.8 billion compared with 1997, principally due to increased military aircraft deliveries. Military Aircraft and Missile Systems operating revenues for 1998 account for 65 percent of total ISDS revenue and Space and Communications account for 35 percent.

The overall ISDS segment earnings from operations margin was 7.7 percent in 1998, compared with 7.3 percent in 1997. This improved margin in 1998 was partially offset by increased research and development expense and joint venture development costs (\$127 million in 1998, compared with \$102 million in 1997) principally for the Sea Launch and Civil Tiltrotor programs. The ISDS segment had a higher level of research and development expense on commercial space and communication activities, including the Delta family of launch vehicles and other business opportunities, compared with 1997.

In the fourth quarter, four C-17 cargo aircraft were delivered to the U.S. Air Force. This brings deliveries for 1998 to ten aircraft with 46 of the total contract for 120 of the airlifters now delivered. The last 34 C-17s have been delivered ahead of schedule. The Company also delivered the last two of four C-32A executive transports, which are modified 757-200s for use in transporting U.S. Government officials. During the fourth quarter, the Airlift and Tanker Unit, which produces the C-17, won the prestigious Malcolm Baldrige National Quality Award.

In December, the first production model F/A-18E/F Super Hornet was delivered to the U.S. Navy more than a month ahead of schedule, and is part of the low rate initial production lot of 12 Super Hornets being assembled in St. Louis. In addition, the U.S. Air Force awarded the first production contract for the first two F-22 Raptors following a favorable program review. Boeing is teamed with Lockheed Martin and Pratt & Whitney to design and build the F-22.

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 also 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. The initial launch of the Delta IV is scheduled for 2001 with a commercial payload.

The Sea Launch assembly and command ship and the launch platform have been conducting full-scale tests in preparation for first launch in March 1999. 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.

During the fourth quarter, the first elements of the International Space Station were put in orbit and the Boeing-built Unity module was joined to the Russian-launched Zarya unit by Shuttle astronauts, as part of the Boeing-led, 16-nation effort to establish a permanent research center in orbit.

The Customer and Commercial Financing, Other segment earnings for the fourth quarter and total year 1998 included \$50 million of expense associated with increasing the customer financing valuation allowance. This increase was the result of growth in the total amount of customer financing and an assessment of the credit risk of the customers being financed.

Other income was \$145 million lower in 1998 than during 1997 primarily due to lower cash and short-term investment balances.

The effective income tax rate for 1998 was 23.9 percent, exclusive of the settlement of prior years' defense-related partnership research and development tax credits of \$57 million. The income tax provision for 1997 resulted in a tax benefit because the provision was applied to a pretax loss. The relatively high income tax rate of 47.8 percent reflects additional benefits, principally Foreign Sales Corporation tax benefits.

Cash and short-term investments decreased by \$252 million during the fourth quarter to \$2,462 million. The decrease during the quarter was due principally to a net increase in customer financing of \$1,247 million and repurchase of 24.6 million shares for \$918 million. These decreases were offset by operating cash flow of \$2,196 million during the quarter.

Gross inventory decreased by \$3.4 billion in the fourth quarter of 1998 to \$27.0 billion. The balance includes \$2.0 billion of deferred production cost and \$2.8 billion of unamortized tooling associated with the 777 and Next-Generation 737 commercial aircraft programs. Excluding deferred production cost and unamortized tooling, the annual inventory turn rate is approximately two. It is from this level that the Company will measure improvement to the stated goal of an annual inventory turn rate of four.

Contractual backlog totaled \$112.9 billion at Dec. 31, 1998, not including 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 Dec. 31, 1998, totaled \$23.5 billion.

Condit noted that the workforce was reduced from a high of 238,000 in 1998 to 231,000 at year-end 1998. Workforce reductions during January 1999 will exceed 3,000. Year-end 1999 and 2000 employment levels are projected to be in the range of 200,000 to 210,000 and 185,000 to 195,000, respectively.

Financial Outlook for Full Year 1999 and 2000

Based on current schedules and plans for 1999, which include commercial aircraft deliveries in a range of 620 aircraft, consolidated revenues are projected to be in the range of \$58 billion, and net earnings are projected to be in the range of \$1.5 billion to \$1.8 billion. Sales by business segment are projected to be in the following ranges: Commercial Aircraft, \$38 billion; Military Aircraft and Missile Systems, \$12 billion; and Space and Communications, \$7 billion. Total Company 1999 research and development expense is expected to be in the range of \$1.6 billion to \$1.8 billion, and the composite earnings from operations margin is projected to be in the range of 4 to 5 percent.

Based on current schedules and plans for 2000, commercial aircraft deliveries are projected to be in a range of 480 commercial aircraft deliveries, and consolidated revenues are projected to be in the range of \$49 billion. Sales by business segment are projected to be in the following ranges: Commercial Aircraft, \$28 billion; Military Aircraft and Missile Systems, \$13 billion; and Space and Communications, \$7 billion. Total Company research and development expense for the year 2000 is projected to be in the range of \$1.5 billion to \$1.7 billion. The composite earnings from operations margin for 2000 is projected to be slightly lower than the margin in 1999 due to the model mix of commercial aircraft deliveries. Commercial aircraft deliveries in the year 2000 will be predominantly newer aircraft programs, which have lower initial gross profit margins than established aircraft programs.

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, scheduled launches of products, research and development expense, inventory turn rates, 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, customer model selections, 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 and decreases, 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; customer model selections, 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 Sept. 30, 1998.

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

<i>(Dollars in millions except per share data)</i>	Twelve months ended December 31		Three months ended December 31	
	1998	1997	1998	1997
Sales and other operating revenues	\$56,154	\$45,800	\$17,099	\$11,727
Operating costs and expenses	50,546	40,644	15,481	10,226
General and administrative expense	1,993	2,187	505	564
Research and development expense	1,895	1,924	464	460
Special charge		1,400		1,400
Share-based plans	153	(99)	47	(141)
	<u>\$54,587</u>	<u>\$46,056</u>	<u>\$16,497</u>	<u>\$12,509</u>
Earnings (loss) from operations	1,567	(256)	602	(782)
Other income, principally interest	283	428	64	125
Interest and debt expense	(453)	(513)	(112)	(148)
Earnings (loss) before income taxes	1,397	(341)	554	(805)
Income taxes	277	(163)	89	(307)
Net earnings (loss)	<u>\$ 1,120</u>	<u>\$ (178)</u>	<u>\$ 465</u>	<u>\$ (498)</u>
Basic earnings (loss) per share	<u>\$ 1.16</u>	<u>\$ (.18)</u>	<u>\$.49</u>	<u>\$ (.51)</u>
Diluted earnings (loss) per share	\$ 1.15	\$ (.18)	\$.48	\$ (.51)

Cash dividends per share	\$.56	\$.56	\$.14	\$.14
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Excluding the special charge and share-based plans:

Net earnings	\$ 1,216	\$ 632	\$ 494	\$ 290
Diluted earnings per share	\$ 1.25	\$.63	\$.51	\$.29

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
(Unaudited)

(Dollars in millions)

December 31,	1998	1997
Assets		
Cash and cash equivalents	\$ 2,183	\$ 4,420
Short-term investments	279	729
Accounts receivable	3,288	3,121
Current portion of customer and commercial financing	781	261
Deferred income taxes	1,495	1,765
Inventories, net of advances and progress billings	8,349	8,967
Total current assets	16,375	19,263
Customer and commercial financing	4,930	4,339
Property, plant and equipment, net	8,589	8,391
Deferred income taxes	411	15
Goodwill	2,312	2,395
Prepaid pension expense	3,513	3,271
Other assets	542	350
	\$36,672	\$38,024

Liabilities and Shareholders' Equity

Accounts payable and other liabilities	\$10,733	\$11,548
Advances in excess of related costs	1,251	1,575
Income taxes payable	569	298
Short-term debt and current portion of long-term debt	869	731
Total current liabilities	13,422	14,152

Accrued retiree health care	4,831	4,796
Long-term debt	6,103	6,123
Shareholders' equity:		
Common shares, par value \$5.00 – 1,200,000,000 shares authorized; Shares issued – 1,011,870,159 and 1,000,029,538	5,059	5,000
Additional paid-in capital	1,147	1,090
Treasury shares, at cost – 35,845,731 and 164,667	(1,321)	(9)
Retained earnings	8,706	8,147
Accumulated other comprehensive income	(23)	
Unearned compensation	(17)	(20)
ShareValue Trust shares – 38,166,601 and 26,385,260	(1,235)	(1,255)
Total shareholders' equity	12,316	12,953
	\$36,672	\$38,024

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

(Dollars in millions)

Year ended December 31,	1998	1997
Cash flows – operating activities:		
Net earnings (loss)	\$1,120	\$ (178)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Special charges		1,400
Share-based plans	153	(99)
Depreciation and amortization	1,622	1,458
Changes in assets and liabilities –		
Short-term investments	450	154
Accounts receivable	(167)	(251)
Inventories, net of advances and progress billings	618	(1,008)
Accounts payable and other liabilities	(806)	1,490
Advances in excess of related costs	(324)	(139)
Income taxes payable and deferred	145	(451)
Other	(479)	(272)
Accrued retiree health care	35	(4)
Net cash provided by operating activities	2,367	2,100
Cash flows – investing activities:		
Customer financing and properties on lease, additions	(2,660)	(1,889)
Customer financing and properties on lease, reductions	1,418	1,030
Property, plant and equipment, net additions	(1,584)	(1,391)
Net cash used by investing activities	(2,826)	(2,250)

Cash flows – financing activities:

New borrowings	811	232
Debt repayments	(693)	(867)
Common shares purchased	(1,397)	(141)
Common shares issued		268
Stock options exercised, other	65	166
Dividends paid	(564)	(557)
Net cash used by financing activities	(1,778)	(899)
Net decrease in cash and cash equivalents	(2,237)	(1,049)
Cash and cash equivalents at beginning of year	\$4,420	\$5,469
Cash and cash equivalents at end of year	\$2,183	\$4,420

The Boeing Company and Subsidiaries
Business Segment Data
(Unaudited)

(Dollars in millions)

	Twelve months ended December 31		Three months ended December 31	
	1998	1997	1998	1997
Revenues:				
Commercial Aircraft	\$35,545	\$26,929	\$11,377	\$6,681
Military Aircraft and Missile Systems	12,990		3,875	
Space and Communications	<u>6,889</u>		<u>1,686</u>	
Information, Space and Defense Systems	19,879	18,125	5,561	4,832
Customer and Commercial Financing, Other	730	746	161	214
Operating revenues	\$56,154	\$45,800	\$17,099	\$11,727

Earnings (loss) from operations:

Commercial Aircraft	\$ 63	\$ (1,837)	\$ 218	\$ (1,244)
Military Aircraft and Missile Systems	1,283		361	
Space and Communications	<u>248</u>		<u>91</u>	
Information, Space and Defense Systems	1,531	1,317	452	309
Customer and Commercial Financing, Other	367	381	34	76
Unallocated expense	(241)	(216)	(55)	(64)
Share-based plans	(153)	99	(47)	141
Earnings (loss) from operations	\$ 1,567	\$ (256)	\$ 602	\$ (782)

Other income, principally interest	283	428	64	125
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Interest and debt expense	(453)	(513)	(112)	(148)
Earnings (loss) before income taxes	\$ 1,397	\$ (341)	\$ 554	\$ (805)
Net earnings (loss)	\$ 1,120	\$ (178)	\$ 465	\$ (498)
Effective income tax rate	19.8%	47.8%	16.1%	38.1%

Research and development:

Commercial Aircraft	\$ 1,021	\$ 1,208	\$ 222	\$ 266
Military Aircraft and Missile Systems	304		91	
Space and Communications	<u>570</u>		<u>151</u>	
Information, Space and Defense Systems	874	716	242	194
Total research and development expense	\$ 1,895	\$ 1,924	\$ 464	\$ 460

OPERATING AND FINANCIAL DATA

Deliveries	Twelve Months				4 th Quarter	
	1998		1997		1998	
Commercial Aircraft	1998		1997		1998	
737	116	(6)	132		24	(6)
737 Next-Generation	165		3		74	
747	53	(3)	39		21	(3)
757	50		46		15	
767	47		41		12	
777	74		59		22	
MD-80	8	(4)	16	(7)	3	(2)
MD-90	34		26	(5)	16	
MD-11	12	(2)	12	(1)	4	
Total	559		374		191	

Information, Space and Defense Systems

C-17	10	7	4	2
F-15	39	19	14	9
F/A-18 C/D	29	46	5	9
F/A-18 C/D Kits	–	20	–	11
T-45TS	16	11	5	3
CH-47	18	1	4	1
757/C-32A	4	–	2	–
767 AWACS	2	–	–	–
Delta II	13	12	5	3
Delta III	1	–	–	–

Note: Commercial Aircraft deliveries by model include deliveries under operating lease which are identified by parentheses.

	Dec. 31	Sept. 30	Dec. 31
Contractual backlog (Dollars in billions)	1998	1998	1997
Commercial Aircraft	\$ 86.1	\$ 92.9	\$ 93.8
Military Aircraft and Missile Systems	17.0		
Space and Communications	<u>9.8</u>		
Information, Space and Defense Systems	26.8	27.6	27.8
Total contractual backlog	\$112.9	\$120.5	\$121.6
Unobligated backlog	\$ 23.5	\$ 24.9	\$ 26.1
Workforce	231,000	235,000	238,000

**The Boeing Company
Delivery Projections**

	Actual	Projections in the range of :	
	1998	1999	2000
Deliveries:			
Commercial Aircraft:			
717	--	12	30
737	116	42	2
737 Next-Generation	165	282	275
747	53	44	14
757	50	67	53
767	47	44	44
777	74	83	55
MD80/90	42	38	4
MD-11	12	8	3
Total Commercial Aircraft	(1) 559	(1) 620	(1) 480
Military Aircraft and Missile Systems			
C-17	10	11	12
F-15	39	38	24
F/A-18 C/D	29	23	18
F/A-18 E/F (2)	1	11	24
T-45TS	16	12	15
757 C-32A	4	--	--
Space and Communications			
767 AWACS	2	2	--
Delta II	13	13	16
Delta III	1	3	6

(1) Includes aircraft delivered under operating lease and excludes government/military versions. The exact model mix and numbers of commercial aircraft for 1999 and 2000 may be impacted by customer model selections and substitutions, customer financing issues and other factors set forth in the "Forward Looking Information" statement on the second and third pages of this report.

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

Forward-Looking Information Is Subject to Risk and Uncertainty

Please read the forward looking statement on the last page of this release.

The Boeing Company
Projections
(Dollars in Billions)

	Actual	Projections in the range of :	
	1998	1999	2000
Revenues:			
Commercial Aircraft	\$ 36	\$ 38	\$ 28
Military Aircraft and Missile Systems	13	12	13
Space and Communications	7	7	7
Total operating revenues	\$ 56	\$ 58	\$ 49
Research and development:			
Commercial Aircraft	\$ 1.0	\$ 0.8 - 0.9	\$ 0.7 - 0.8
Military Aircraft and Missile Systems	0.3	0.3 - 0.4	0.3 - 0.4
Space and Communications	0.6	0.5 - 0.6	0.5 - 0.6
Total research and development	\$ 1.9	\$ 1.6 - 1.8	\$ 1.5 - 1.7
Earnings from Operations margins:			
Commercial Aircraft	0%	2% - 3%	1% - 3%
Military Aircraft and Missile Systems	9.9%	9.5% - 10.5%	10.0% - 11.0%
Space and Communications	3.6%	4% - 5%	4.5% - 5.5%
Composite earnings from operations margins	2.8%	4% - 5%	3.5% - 5%
Total Company			
Employment in thousands	231	200 - 210	185 - 195
Capital expenditures	\$ 1.6	\$ 1.7 - 1.9	\$ 1.6 - 1.8
Depreciation and amortization	\$ 1.6	\$ 1.8 - 1.9	\$ 1.8 - 1.9

The Company intends to update these projections only on a quarterly basis in conjunction with its quarterly earnings release.

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