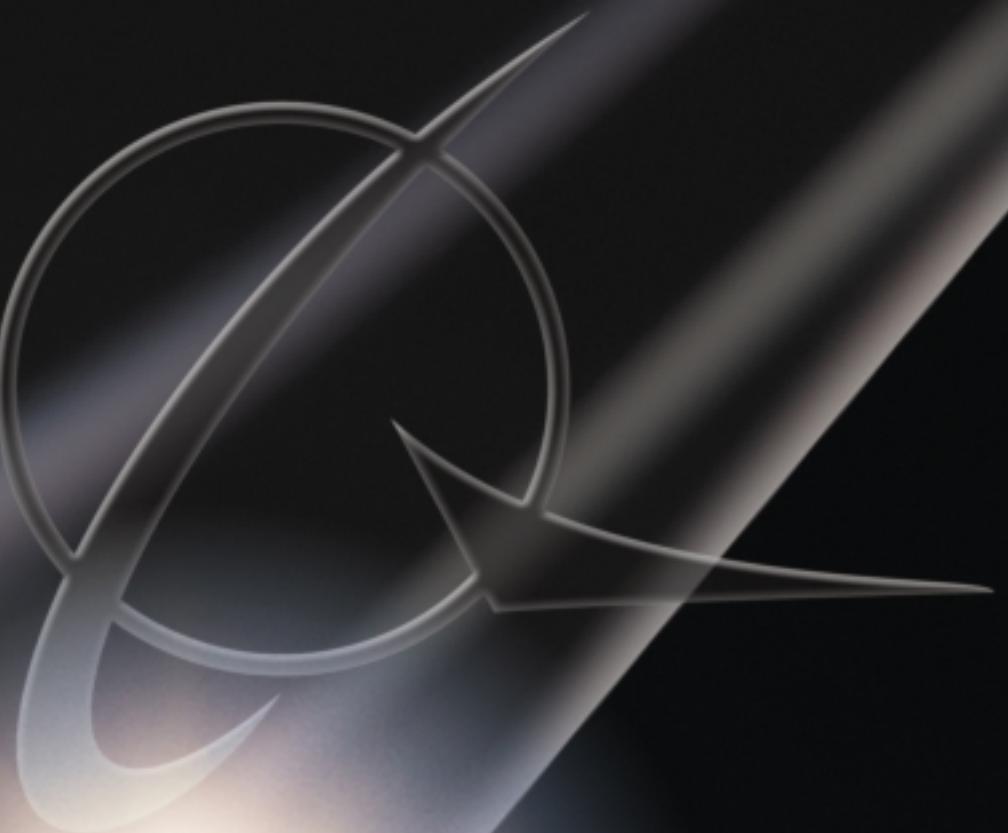


THE BOEING COMPANY
GENERAL OFFICES
7755 EAST MARGINAL WAY SOUTH
SEATTLE, WASHINGTON 98108
USA

1999 ANNUAL REPORT



THE BOEING COMPANY 1999 ANNUAL REPORT



EXCITING OPPORTUNITIES

1999 PERFORMANCE HIGHLIGHTS

- ◆ Achieved total shareholder return of 29 percent, compared with 21 percent for the Standard & Poor 500 Index as a whole and compared with an average decrease of more than 15 percent for companies (except Boeing) comprising the S&P Aerospace Index.
- ◆ Ranked 128th out of S&P 500 in return to shareholders, up from 463rd in 1998.
- ◆ Returned commercial airplane production to robust health, delivering a record 620 jetliners with fewer people, less overtime and dramatically improved on-time performance.
- ◆ Met or exceeded all companywide 1999 Value Scorecard goals, improving our overall performance and freeing up capital for growth.
- ◆ Won several strategically important major competitions, while successfully expanding our service businesses – for commercial and military customers – with great potential for future growth.

Founded 84 years ago by William E. Boeing, The Boeing Company is the leading aerospace company in the world, as measured by total revenues. The holder of 5,076 patents, Boeing is the world's largest manufacturer of commercial jetliners and military aircraft and provides related services worldwide. Boeing is also NASA's largest contractor. The company's capabilities and related services include helicopters, electronic and defense systems, missiles, rocket engines, launch systems, and advanced information and communication systems. At year-end 1999, Boeing employed a diverse and skilled workforce of 197,100 people. Along with hundreds of thousands more people employed at approximately 28,800 suppliers worldwide, they provide Boeing products and services to customers in 145 countries.

3 MESSAGE TO SHAREHOLDERS

11 CAPITALIZING ON GROWTH OPPORTUNITIES

28 FINANCIAL REPORT

75 INDEX TO FINANCIAL REPORT

76 SELECTED PRODUCTS AND PROGRAMS

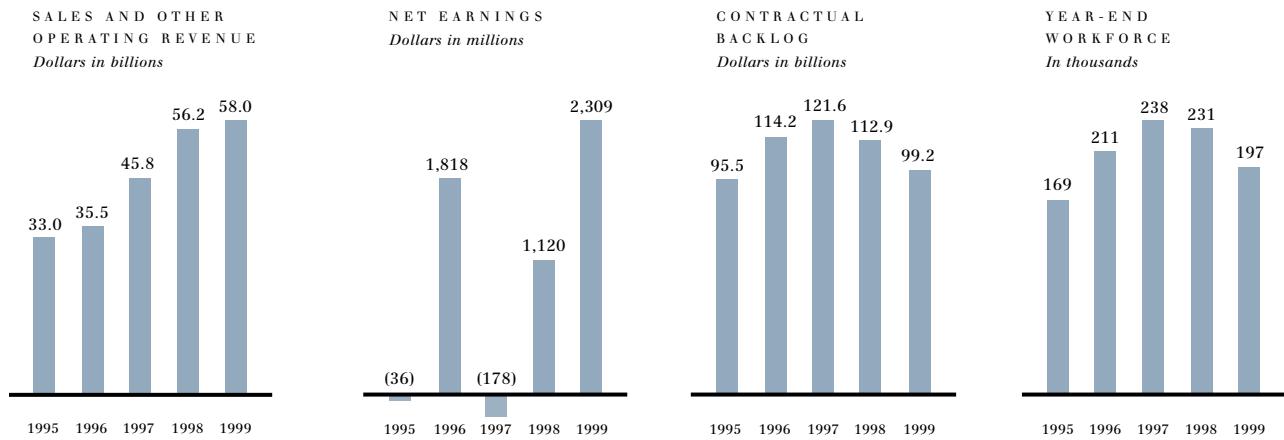
79 BOARD OF DIRECTORS AND COMPANY OFFICERS

80 SHAREHOLDER INFORMATION

FINANCIAL HIGHLIGHTS

| (Dollars in millions except per share data) | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Sales and Other Operating Revenues | \$57,993 | \$56,154 | \$45,800 | \$35,453 | \$32,960 |
| Net Earnings (Loss) | 2,309 | 1,120 | (178) | 1,818 | (36) |
| Earnings (Loss) per Share | 2.49 | 1.15 | (.18) | 1.85 | (.04) |
| Contractual Backlog | 99,248 | 112,896 | 121,640 | 114,173 | 95,488 |
| Research and Development | 1,341 | 1,895 | 1,924 | 1,633 | 1,674 |
| Capital Expenditures, Net | 1,236 | 1,665 | 1,391 | 971 | 747 |
| Cash and Short-term Investments | 3,454 | 2,462 | 5,149 | 6,352 | 4,527 |
| Customer and Commercial Financing Assets | 6,004 | 5,711 | 4,600 | 3,888 | 4,212 |
| Total Debt | 6,732 | 6,972 | 6,854 | 7,489 | 5,401 |
| Cash Dividends | 537 | 564 | 557 | 480 | 434 |

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





HARRY C. STONECIPHER

PHILIP M. CONDIT

MESSAGE TO SHAREHOLDERS

To lead, from one era to the next, is a great challenge.

Boeing has met that challenge before.

We led in the transition from wood-and-canvas to metal airplanes. We led in the transition from the piston era to the jet age. We pioneered in space exploration.

Today, we face a new challenge – and a new opportunity. We are moving into an era where success is measured not only by product performance, but also by our ability to create value for customers in a fast changing and increasingly interconnected global business environment. We intend to lead in this new value-driven era. And we will.

This is not simply a matter of cost and price reductions. It is about speed and urgency. It is about using knowledge, insight and a full breadth of capabilities to provide the most creative and affordable solutions to complex customer needs. It is about being a real partner who anticipates and fulfills these needs – around the clock and around the world. Finally, it is very much about attitude. We cannot succeed simply by doing the same things better. We have to do things differently – identifying new opportunities and using our intellectual capital in new and better ways.

Our mission is bigger and broader than ever. It is to push not just the envelope of flight, but the entire envelope of value relating to our customers and shareholders.

THE YEAR IN REVIEW

Value begins with dependability – and trust. To sum up 1999 in a few words, we performed well – consistently meeting or exceeding expectations.

– We promised vastly improved financial results, and we delivered. Boeing had net income of \$2.3 billion in 1999, up from \$1.1 billion in 1998. Further, we opened our books, providing unprecedented transparency. In our Value Scorecard, we identified key financial objectives for the next two years. (The 1999 results are shown in the charts at the bottom of pages 4, 5, 6 and 7.) We invited the world to track our progress.

– We said that we would return commercial airplane production to good health and deliver a record 620 jetliners in 1999. We did both. In doing so, we produced more airplanes with fewer people and less overtime. At the same time, we took important steps toward renewing our commercial airplane product lines to improve our competitiveness into the 21st century. We certified two new airplanes (the 757-300 and the 717), completed the rollout and first flight of the extended-range 767-400ER, and secured new orders for 391 airliners.

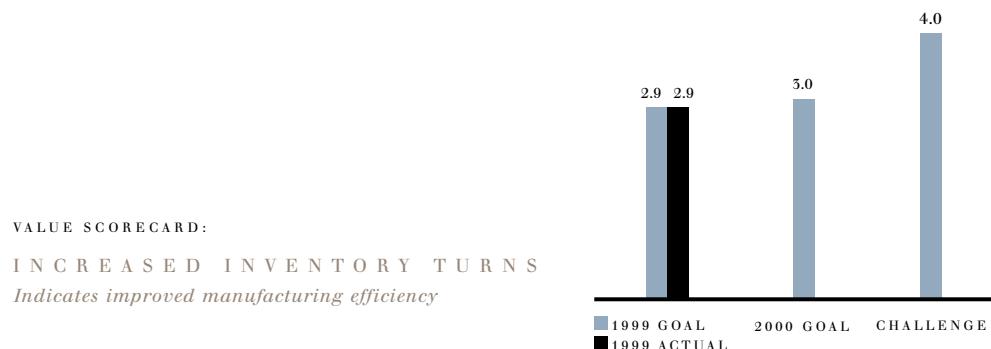
- We won a series of important competitions in space and defense markets as a result of our ability to provide integrated, systems-based solutions to complex problems. Boeing demonstrated this ability with the achievement of a major milestone in the National Missile Defense program: On our first attempt, we destroyed a ballistic missile target in space with a test interceptor missile.
- We continued to beat cost and schedule goals in the vastly important Joint Strike Fighter competition. Our Joint Strike Fighter team operates as a virtual organization – pulling together people and resources at Seattle, St. Louis, Tulsa, and the final assembly site in Palmdale, outside of Los Angeles. Although major structures were built thousands of miles apart, the pieces all fit together perfectly. This was due to advanced lean design and manufacturing techniques, such as three-dimensional solid modeling and assembly simulation, laser-guided part positioning, and minimal tooling. We assembled the X-32A, the first of two concept demonstrators, in just over 52 weeks and with 58 people. In just six hours, we attached its unique, one-piece wing to the fuselage.

- In a year filled with big events and changes, one of the biggest was this: We stopped thinking of ourselves as just an aerospace manufacturer and began to think of ourselves in a much broader way – as a provider of integrated products and services to all of our customers.

Dramatically lower defense budgets in the past decade have dictated a greater emphasis on services in the military market. There is a clear mandate from the U.S. Department of Defense (and other military customers around the globe) for faster, better, cheaper solutions to life cycle customer support. Already – in just its second full year of operation – our Military Aerospace Support business accounted for 25 percent of the total revenues in the Military Aircraft and Missiles unit. It has quickly established itself as the preeminent provider of life cycle support for military aircraft.

Similar opportunities abound on the commercial airplane side. More than 11,000 of the world's fleet of approximately 13,000 jetliners are Boeing airplanes. Nobody knows these airplanes better than we do. Today's carriers – facing deregulation, new entrants into airline service and increased competition – are searching for value-adding, packaged solutions in many areas. Our Rapid Response Center provides that in time-critical situations. It is staffed by a complete team of technical experts who are available around the clock to help resolve in-service problems. Fast-growing FlightSafety Boeing Training International now provides maintenance and flight crew training at 15 locations worldwide.

Our revenues from commercial and military aircraft services of all kinds increased from \$3.7 billion in 1998 to \$4.2 billion in 1999. We expect a double-digit annual growth rate in this area to continue over the next decade.



Space also figures in our push into new products and services. Any moving platform – airplanes, cars, trucks, trains, ships and other vehicles or vessels – can benefit from valuable information, insight or guidance relayed from space. It is our goal to become the world leader in integrated, space-based information and communications – a big market that is going to get a lot bigger.

To that end, we expect to complete the purchase of Hughes Electronics Corporation's space and communication businesses by mid 2000. Hughes is recognized as the technological world leader in space-based communications, reconnaissance, surveillance and imaging systems. With the intellectual capital that comes with this acquisition, we expect to play an increasing role in the evolution of the Information Age.

TOWARD A NEW BUSINESS MODEL

Like IBM in computers, AT&T in telephony, Ford in automobiles, and GE across a mix of businesses, we are moving to a new business model. It is predicated on our ability to offer full-service solutions to an expanding array of customer needs. The opportunities that are opening before us play to two of our core competencies: detailed customer knowledge and large-scale systems integration. Even better, they allow us to leverage a vast store of information about our own products.

A practical illustration of this came during one set of transactions in 1999.

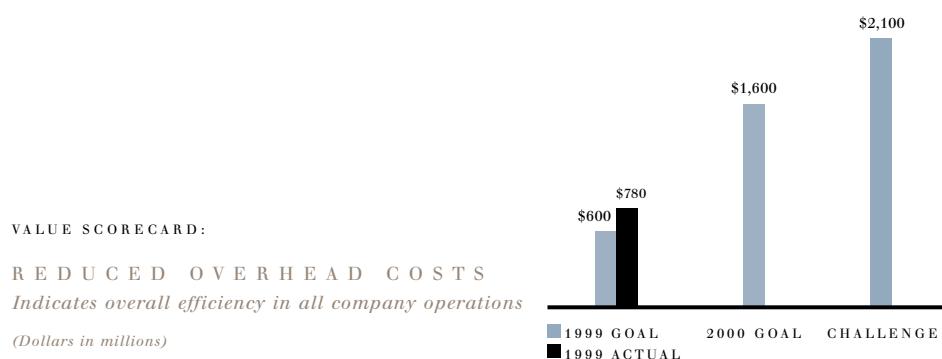
DHL Worldwide Express wanted to upgrade its fleet of Boeing 727 freighters to larger and higher performance Boeing 757s, without making a large capital expenditure on new airplanes. In response, Boeing Commercial Aviation Services located and agreed to acquire 44 in-service Boeing 757 passenger airplanes. Now, we are converting them into freighters to be leased to DHL. And we have a further agreement to provide DHL follow-up maintenance and engineering services. Our Boeing Capital Corporation subsidiary underwrote financing and lease services for the program.

What made this a good deal?

From DHL's point of view, it was a complete answer, combining speed and simplicity.

For us, it was new business – and a true partnership arrangement with our customer far into the future.

One thing is certain. The push into full-service solutions will put an even higher premium on our ability to think and act as one company.



Size has advantages, and disadvantages. A big ship can carry more cargo, travel longer distances and withstand bigger storms. But a big ship is harder to turn, maintain and command. When an increase in size comes through mergers and acquisitions, the suddenness of change is itself unsettling. In the corporate world, as well as the nautical world, the joining of two crews is a difficult task.

When we decided to merge McDonnell Douglas into Boeing, the two of us, as CEOs of the previously competing companies, were well aware of both the advantages and disadvantages of size. We knew that this merger, coupled with the earlier acquisition of Rockwell's aerospace businesses, would create an unrivaled breadth and balance of capabilities. As *Fortune* magazine and others recognized at the time, this could be a powerful competitive advantage. But only if we succeeded in pulling together as one company.

From the start, the two of us sought to set an example – working together as leaders of Boeing. We have built a leadership team that is a true team – united in the desire to create a more powerful whole from the sum of its parts.

This team includes some exceptionally talented people recruited from the outside. We value their energy and fresh thinking. Where we promoted from within, we put the best talent where it was most needed. We not only disregarded old organizational boundaries – we breached them early, often and deliberately. At the same time, we have moved to streamline and standardize entire systems for computing, travel and procurement across the whole company.

Our record in a series of major space and defense competitions in 1999 shows how far and how fast we have come.

We won a multibillion-dollar contract from the National Reconnaissance Office that establishes our lead in space imaging. In doing so, we supplanted a long-entrenched incumbent.

We won a billion-dollar program to provide Australia with airborne early warning and control systems based on the Boeing Next-Generation 737 platform.

We won a contract for design and development of a futuristic, low-cost Unmanned Combat Air Vehicle system for the Defense Advanced Research Projects Agency and U.S. Air Force.

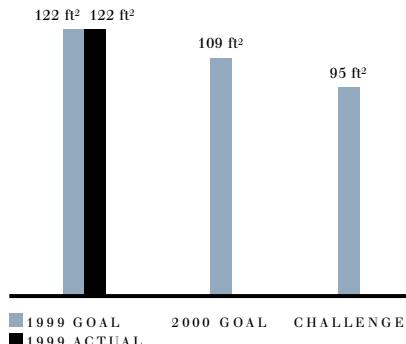
And we won a cooperative-agreement contract for design and development of an experimental space plane called the X-37. NASA sees this program as a major steppingstone toward achieving its goal of significantly reducing cost-to-orbit for reusable launch vehicles.

VALUE SCORECARD:

INCREASED FACILITIES CONSOLIDATION

Indicates more effective use of manufacturing and office space

(In millions)



In its ability to mobilize the best technology, processes and people from across the company, our Phantom Works advanced research and development group is a force for innovation. It aims at making breakthroughs in the performance and affordability of our products. The Phantom Works captured the X-37 and Unmanned Combat Air Vehicle programs and played a key role in our superior performance on the Joint Strike Fighter program. It also has been responsible for shortening production cycle times and lowering costs on existing programs such as the C-17 transport and Delta II launch system. To facilitate similar initiatives with our Commercial Airplanes Group, we moved the Phantom Works headquarters to Seattle in 1999.

Boeing is investing more money and effort in developing people than ever before. We have given our people the ultimate incentive to pursue further education, paying for their tuition and awarding them stock for completing degrees. Diverse and highly motivated people who continue to learn are our best safeguard against the hardening of corporate arteries.

Our Leadership Center in St. Louis challenges and trains managers to become leaders – people who combine long-term strategic thinking, business acumen and the ability to engage others in dealing with rapid change. Some 2,000 managers from all levels of the organization – front-line supervisors to group presidents – completed extended leadership training and development courses at the center in 1999, its first full year of operation. We aim to make the Leadership Center part of the shared experience for all Boeing managers.

VALUE DRIVEN AND GROWTH ORIENTED

In today's fast-changing global economy, successful companies must do two things. The first is to manage existing businesses extremely well. The second is to discover and create new strategic opportunities.

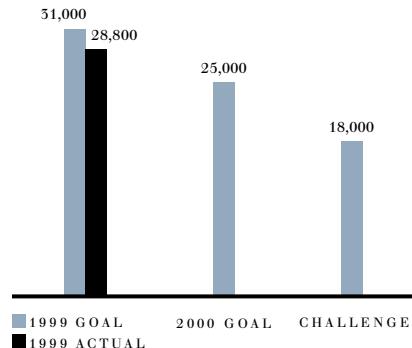
We are driving forward-looking, value-based discipline and decision-making deep into our organization. We have established economic profit targets for the entire company and for every operating group, every product line and every service we offer. We are speaking a common language in measuring performance and determining what is best for the future of the enterprise.

Economic profit, which means after-tax earnings minus a charge for assets or capital employed, is a window on reality. It provides a fast and clear means of evaluating all of the different businesses and opportunities competing for corporate resources. The financial drivers of economic profit are faster growth, lower costs and reduced assets.

VALUE SCORECARD:

REDUCED SUPPLIER BASE

Indicates efficiency in purchasing parts, equipment and services



Visit any Boeing factory today and you enter a place that is strikingly different from the one that existed two or three years ago. Regardless of the level of production, you find a less crowded environment. How has that happened?

Boeing teams have embraced and applied lean principles, concepts and techniques. The results are found in the diagrams and charts posted at manufacturing workstations. These provide a detailed picture of each group's progress toward its goals in reducing work in progress, accelerating flow times, increasing quality and meeting various cost targets.

Simply put, our people have become energized in finding ways to eliminate millions of movements that don't add value. That has been the real key in reducing many assets, both fixed and variable. It explains the paradox of our greatly increased throughput in 1999 with significantly reduced floor space. It also explains our ability to meet new customer needs.

Take one example: Employees at Boeing Spokane, who have produced floor panels for the Commercial Airplanes Group for many years, scored a real first in 1999. As a direct result of dramatic reductions in manufacturing time and manufacturing space, they broke into the merchant market, winning a contract to supply replacement floor panels for the entire Delta Air Lines fleet. Later in the year, they won another contract from Alaska Airlines. The people at Boeing Spokane experienced the excitement and security of opening a whole new revenue stream – one that will not fluctuate with the order cycle for new airplanes.

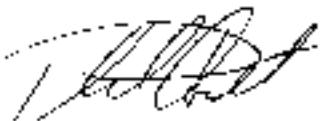
IN CONCLUSION

A year ago, we said that this company would rise to the top quartile of the Standard & Poor 500 in return to shareholders within the next few years. We very nearly achieved that objective in 1999 – far ahead of anyone's expectations. Our goal for the coming year is to move from the 128th position to well up the list of top performers.

Can we do that through the next turn in the commercial airplane cycle – with deliveries expected to fall from a peak of 620 in 1999 to approximately 490 in each of the next two years? Absolutely, we can. We will continue to improve productivity and increase margins. And we will continue to push for growth in new areas.

We are now performing well in all of our businesses. But we are far from satisfied with where we are. In 2000 and beyond, we expect to surprise a lot of people who think of aerospace as a mature industry.

We hope you will be along for the ride. There is no limit to this flight.



PHILIP M. CONDIT
Chairman and Chief Executive Officer



HARRY C. STONECIPHER
President and Chief Operating Officer

February 28, 2000



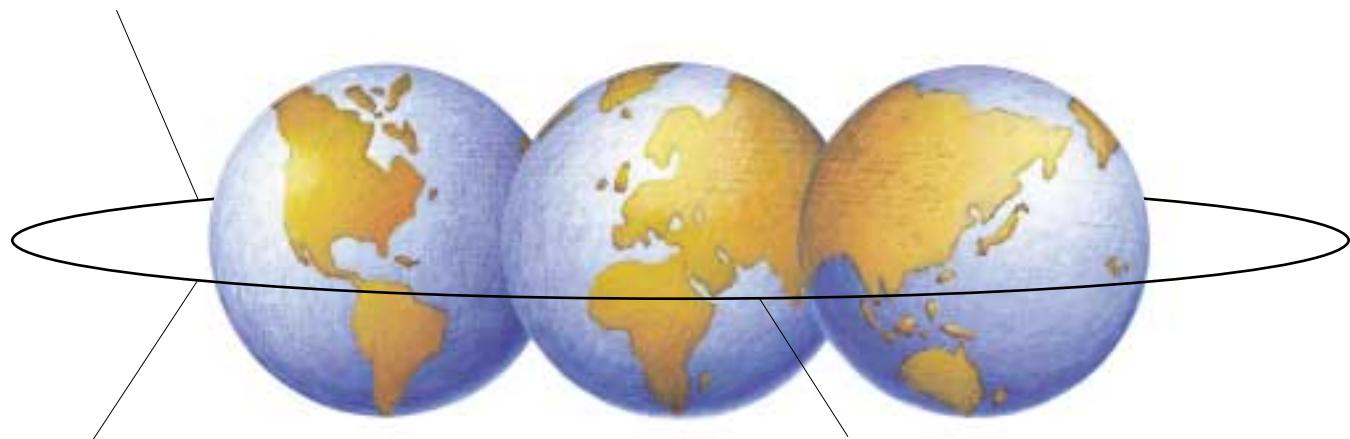
Back from left to right: John D. Warner, Senior Vice President and Chief Administrative Officer; James B. Dagnon, Senior Vice President, People; James F. Palmer, Senior Vice President and President, Boeing Shared Services Group; Theodore J. Collins, Senior Vice President, Laws and Contracts; Michael M. Sears, Senior Vice President and President, Boeing Military Aircraft and Missile Systems Group; James F. Albaugh, Senior Vice President and President, Boeing Space and Communications Group; James C. Johnson, Vice President, Corporate Secretary and Assistant General Counsel; Alan R. Mulally, Senior Vice President and President, Boeing Commercial Airplanes Group

Front from left to right: Deborah C. Hopkins, Senior Vice President and Chief Financial Officer; Judith A. Muhlberg, Vice President, Communications; David O. Swain, Senior Vice President Engineering and Technology, President of Phantom Works

Not pictured: Christopher W. Hansen, Senior Vice President, Government Relations

(Note: Photo of Philip M. Condit, Chairman and Chief Executive Officer, and Harry C. Stonecipher, President and Chief Operating Officer, is found on page 2.)

Boeing has customers in 145 countries.



In addition to its U.S. manufacturing facilities and operations, Boeing has major manufacturing facilities in Canada and Australia. Boeing also has more than 3,500 suppliers in 65 countries outside the United States.

197,100 Boeing employees work in 62 countries supporting commercial, military, and space and communications customers worldwide.

Africa: Egypt, Ethiopia, Kenya, Madagascar, Morocco, South Africa, Tunisia, Zimbabwe.

Americas: Argentina, Bolivia, Brazil, Canada, Chile, Colombia, El Salvador, Mexico, United States.

Asia: Azerbaijan, China, Fiji, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, Turkmenistan, Uzbekistan, Vietnam.

Australia and New Zealand.

Europe: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxemburg, Netherlands, Norway, Poland, Romania, Russia, Spain, Sweden, Switzerland, Turkey, United Kingdom, Ukraine.

Middle East: Israel, Kuwait, Saudi Arabia, United Arab Emirates.

C A P I T A L I Z I N G O N G R O W T H O P P O R T U N I T I E S



THE BOEING COMPANY

GROWTH IN VALUE

Finding innovative solutions for our customers

Innovation is critical to growth in value. Innovation takes several forms. ♦ Thinking differently about an existing market or product can be the key to opening a whole new category of demand. The Boeing Business Jet epitomizes that kind of innovation. It has redefined the corporate jet. No longer is executive jet travel just about speeding from point A to point B. Now it is also about the comfort, convenience and functionality of a fully equipped office aloft. In a Boeing Business Jet, people can put in a full day at the office while traveling halfway around the world. Along with our partner, GE, we pioneered in making the corporate jet a true global business tool. ♦ We also prize creativity in the design and development of our products. Take one example: Due to a lean design that reduces the number of unique parts by 90 percent and the number of welds by 95 percent,



An innovative life cycle customer-support contract with the U.S. Air Force for the C-17 Globemaster III program is one example of where Boeing is involved in a public-private partnership to reduce total ownership costs for fielded aircraft systems.





- 95% reduction in lead time
- 68% reduction on parts cost
- 62% reduction in inventory costs
- 50% reduction in floor space

By applying lean manufacturing principles, employees in Spokane, Washington, dramatically increased airplane floor-panel fabrication productivity and reduced manufacturing time and space. These achievements led to contracts with Delta Air Lines and Alaska Airlines for customized replacement floor panels.

the RS-68 engine – now under development at Boeing Rocketdyne – will cost substantially less than today's rocket engines. Yet it will have 50 percent more thrust. These are major benefits for both government and commercial customers in our space-launch business. ♦ We are dedicated to unceasing innovation in manufacture and assembly. We know that big breakthroughs in cost and performance can come from a stream of smaller changes, as well as from a few big ones. These range from the practical (better placement of tools), to the more creative (on-the-spot design of simpler and better tools), to the truly radical (great achievement through inspired teamwork and

◀ The Joint Strike Fighter X-32 concept demonstrators have become symbols of how Boeing is exploiting lean design and manufacturing techniques to produce affordable military aircraft. Overall X-32 fabrication and assembly costs remain at 30 to 40 percent below projections that are already low compared to previous aircraft development programs.



*In the next 24 hours,
Boeing will export \$72 million
in goods and services to
customers worldwide.*

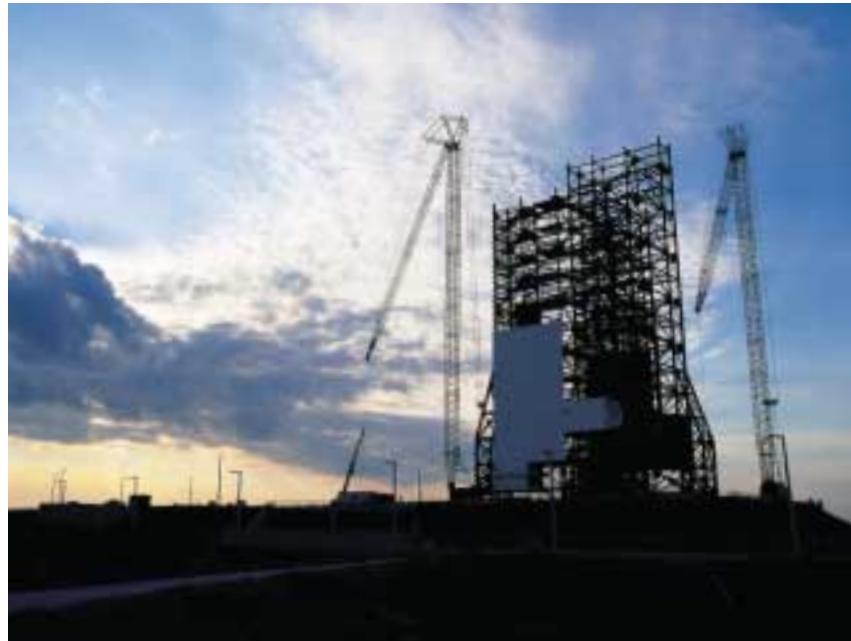


As part of a new approach to provide creative business solutions for customers, Boeing is working with DHL Worldwide Express to lease, finance and maintain its fleet of Boeing 757 Special Freighters.



Boeing continues its record of providing innovative propulsion systems. Lean design reduced the number of parts and welds for our lower cost, higher thrust, environmentally safe RS-68 engine – the first U.S. large, liquid-fueled rocket engine brought to market in more than 25 years.

A major expansion of launch capabilities is well underway at Cape Canaveral Air Station, Florida, to accommodate the newest family of Boeing rockets. The Delta IV fleet will reduce the cost of access to space for our customers by more than 25 percent.



brainstorming). At Boeing Portland, four Accelerated Improvement Workshop teams came up with a whole new modular approach to building aisle stand assemblies, which house the throttle and other flight control devices. The result: a 50 percent reduction in assembly time. Throughout all of our factories, such teams are making major changes to reduce costs and improve quality. ♦ We also strive to be highly innovative in the way we service our products. Across all three of our principal businesses, we have seized the initiative in rolling out new services and solutions for our customers.



*In the next 24 hours,
3 million people will board
42,300 flights on Boeing jetliners,
carrying them to nearly every
country on Earth.*



THE BOEING COMPANY

B U S I N E S S G R O W T H

Creating opportunities to expand our business base

In February 1999, the Boeing C-17 airlifter received the 1998 Malcolm Baldrige National Quality Award for manufacturing excellence. We are proud of that and equally proud of our role in providing life cycle support to the U.S. Air Force for this aircraft. This includes program management, sustaining logistics and engineering, spares management, and aircraft modification responsibility. It is our objective to become the premier supplier of aerospace services as well as a world leader in commercial and military airplanes, and space and communications hardware. When we deliver an airplane, it represents a relationship with our customer that may continue for the next 30 years or more. Excellence in services is a significant competitive advantage for our company.

◆ An airplane (whether commercial or military) that sells for \$100 million will generate an additional \$125 million or more in services-related revenues during its useful life in maintenance,



Key to growing Military Aircraft and Missiles is delivering life cycle customer-support solutions to military services worldwide. Aggressive growth of this business – which is planned to nearly triple revenues in the next 10 years – includes the integration of five modification and upgrade centers around the United States.



A Boeing 767-400ER aircraft is shown from a low angle, positioned on a runway. The aircraft is angled towards the left, with its front landing gear and the large, dark blue and white engines visible. The background features a vibrant sunset with a yellow sky and silhouetted mountains. The aircraft's fuselage is white with blue and red stripes, and the text "BOEING 767-400ER" is printed in blue. The registration number "N40000" is partially visible on the side.

BOEING 767-400ER

N40000

00



We have successfully demonstrated our ability to provide a worldwide data service to military, government and commercial customers who are traveling at very high rates of speed on aircraft. We are positioning ourselves for growth in this niche of the broadband satellite communications market.



spare parts, modification, training and other services. We are well equipped to provide them all. In 1999, we rolled out a suite of new services for the fast-changing air transport industry. We established a fifth modification and upgrade center for military aircraft in Jacksonville, Florida, which complements work done on trainers, transports and tankers at our centers in San Antonio, Texas; Shreveport, Louisiana; Wichita, Kansas; and Mesa, Arizona. The Florida center will focus initially on modification of U.S. Navy F/A-18 Hornet aircraft. In military, commercial, and space and communications markets, we benefit from our ability to leverage a vast storehouse of information about our products. Nobody knows Boeing aircraft better than we do. ♦ Our ability to leverage our strengths across the whole spectrum of aerospace capabilities is a strong competitive advantage in the pursuit of business. This was illustrated by one of the competitive wins in 1999: a billion-dollar

◀
The extended-range Boeing 767-400ER, the largest airplane in the 757/767 family, flew for the first time in 1999. Seating up to 304 passengers, it allows airlines to add more seats on existing routes. During the next 20 years, we anticipate the worldwide market will require 2,000 airplanes in the Boeing 767-size category.



In the next 24 hours, 6,000 Boeing military aircraft will be on guard with the defense forces of 27 countries and with every branch of the U.S. military.

Employees in Florida work on a truss for NASA's International Space Station. Experience gained in leading large-scale systems integration programs such as this is invaluable in ensuring future success.



contract for Australia's Project Wedgetail, an airborne early warning and control system. Centered on seven Boeing Next-Generation 737-700 type airplanes, this program draws upon our combined expertise in space, defense and commercial aviation. It also draws upon a strong Boeing presence. Boeing Australia provides systems engineering and airplane modification services. ♦ The Joint Strike Fighter program further demonstrates our ability to achieve great things by pulling together capabilities from across the company. The JSF team has taken lean design and assembly to new heights by applying lessons learned from the Boeing C-17 transport, 777 and F/A-18E/F aircraft – winners of the aerospace industry's coveted Collier Trophy for 1994, 1995 and 1999, respectively. ♦ Intellectual capital and the ability to provide the most affordable and creative solutions to complex customer problems have never been more important than they are today. That is true in computing and telecommunications, and it is no less true in aerospace. We will grow our businesses by drawing upon all our capabilities to deliver superior value to our customers.



In the next 24 hours, the Boeing spare parts web site will complete 18,000 transactions, with sales of more than \$1 million.



Proven components from the world's premier companies were combined to create a revolutionary launch service that maximizes payload capability, extends spacecraft life and emphasizes customer support. Sea Launch is an innovative solution that strengthens our ability to win new business in the space launch market.

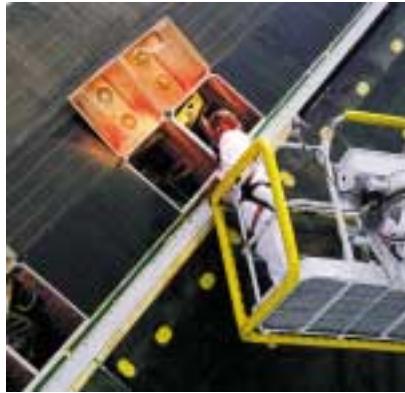
The Boeing Business Jet can fly nonstop from Paris to Los Angeles, or farther, with a range of 6,000 nautical miles. Comparably priced and with three times more interior space than the competition, the BBJ allows international business travelers to be productive en route and arrive relaxed and refreshed – providing significant competitive advantages.



In the next 24 hours, 335 satellites put into space by Boeing launch vehicles will orbit the Earth.



THE BOEING COMPANY



We are working hard to continuously improve the skills of the people who work at Boeing. Attitude also is important. We are looking for people who are excited about what we are doing and ready to help invent and build the Boeing of the 21st century.

GROWTH OF OUR PEOPLE

Unlocking our potential

With more than half of our employees holding four-year college degrees, we have one of the most highly educated corporate workforces in the world. We plan to harness this potential to uncover answers and provide results for our customers. Sweeping changes in recent years have moved our emphasis on learning to an even higher level. We invested more than \$81 million in tuition payments in 1999 for employees pursuing technical training and college studies, a 145 percent increase over what we invested two years ago. We plan to raise this budget still further in 2000.

◆ In addition, this year we opened our Leadership Center near St. Louis, where company leaders, including those just entering management, midlevel managers, and senior executives, participate in courses of study tailored to their individual needs and experience. We also began an ambitious Global Leadership Program, which involves a mix of academics and practical experience that we believe will help us grow our business worldwide. ◆ During the past two years, a Diversity Task Force, made up of senior Boeing executives, has developed and communicated a strategy for evolving our corporate culture. This strategy will improve the company's global competitiveness and market share by strengthening our ability to attract and keep skilled talent in a shrinking and increasingly competitive labor market.



The Boeing Leadership Center operates as the company's crossroads of leadership development. With the goal of improving business results, managers from all levels come to acquire and practice the skills needed to lead and manage more effectively. Chairman Phil Condit and President Harry Stonecipher both participate in the executive program at the Center, opening and closing each two-week session.

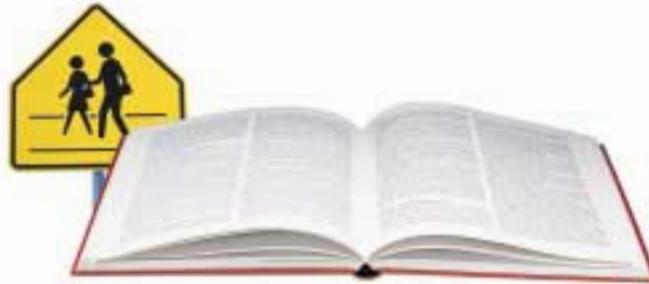
A diverse and skilled workforce engaged in lifelong learning is critical to achieving our company vision. We encourage employees to participate in the Learning Together program, which pays 100 percent of tuition costs and provides stock awards.



In the next 24 hours, 12,000 Boeing employees will attend training and higher education courses on their own time.



THE BOEING COMPANY



The Boeing Company made contributions of more than \$55.5 million in cash and in-kind services during 1999, the largest portion of which went to education.

SUSTAINABLE GROWTH

Strengthening our relationships

We understand and manage the most complex technological systems humans have devised – aircraft, space vehicles and other aerospace products. This focus gives us an appreciation of the Earth's environment, the most complex system of all. We apply our technologies to making our processes cleaner and less wasteful. We also draw our huge network of worldwide customers and suppliers into a team, working together to improve the quality of life for future generations. ♦ Company and employee contributions of cash and in-kind services in 1999 exceeded \$96.7 million and supported a wide range of programs in the areas of education, health and human services, civic and environmental initiatives, culture and the arts. A significant portion of those gifts – \$41.2 million – came from our exceptionally generous employees and retirees, largely through the Employees Community Fund of The Boeing Company, the largest employee-owned charitable organization in the world. Our employees and retirees also gave generously of their own time, volunteering hundreds of thousands of hours to help worthwhile projects. ♦ As part of President Clinton's Council on Year 2000 Conversion, Boeing worked closely with the aerospace industry to develop a common Y2K solution. We led conferences with customers and suppliers, made presentations to government and industry associations and coordinated disaster preparedness plans with Federal agencies. Our global leadership helped achieve a smooth transition to the year 2000.



In Southern California, Boeing participates in efforts to restore and enhance the Bolsa Chica Wetlands. Throughout the company, we apply our technology to making our processes cleaner and less wasteful.



*In the next 24 hours,
Boeing and its employees will
contribute \$260,000 to support
community programs.*

1999 FINANCIAL REPORT

FINANCIAL TABLE OF CONTENTS

| | |
|---|----|
| Management's Discussion and Analysis | 30 |
| Segment Information | 48 |
| Consolidated Statements of Operations | 51 |
| Consolidated Statements of Financial Position | 52 |
| Consolidated Statements of Cash Flows | 53 |
| Consolidated Statements of Shareholders' Equity | 54 |
| Notes to Consolidated Financial Statements | 56 |
| Quarterly Financial Data | 72 |
| Independent Auditors' Report | 73 |
| Report of Management | 73 |
| Five-Year Summary | 74 |
| Index to Financial Report | 75 |
| Selected Products and Programs | 76 |

Management's Discussion and Analysis

Results of Operations, Financial Condition and Business Environment

Merger With McDonnell Douglas Corporation

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

Information, Space and Defense Systems Segment Reporting

In 1998, the Information, Space and Defense Systems (ISDS) Group of the Company was reorganized into two groups: the Military Aircraft and Missile Systems Group and the Space and Communications Group, which have been reported as separate business segments beginning in 1998. Comparisons of revenues and operating profit between 1997 and 1998 relate to the ISDS segment in total. Total ISDS segment revenues were \$19.9 billion in 1998, compared with \$18.1 billion in 1997, and operating

profit in 1998 was \$1,531 million, compared with \$1,317 million in 1997. The increase in revenue and operating profit in 1998 was principally due to increased deliveries for the C-17, F-15 and CH-47 programs, partially offset by fewer F/A-18 C/D deliveries.

RESULTS OF OPERATIONS

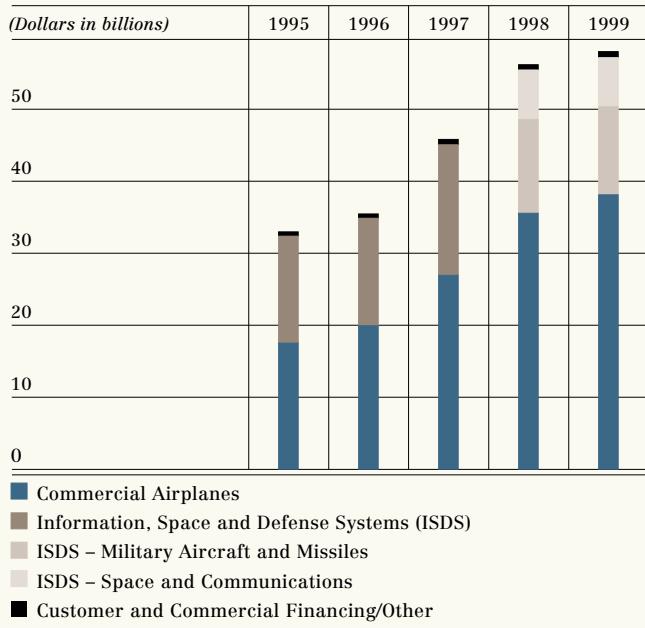
Revenues

Operating revenues for 1999 were \$58.0 billion, compared with \$56.2 billion in 1998 and \$45.8 billion in 1997. The higher revenues for both 1999 and 1998 reflect the increased deliveries in the Commercial Airplanes segment. The higher 1998 revenues also reflect increased deliveries in the combined Military Aircraft and Missiles segment and Space and Communications segment. Military Aircraft and Missiles segment 1999 revenues of \$12.2 billion decreased \$0.8 billion from 1998, and Space and Communications 1999 segment revenues of \$6.8 billion decreased \$0.1 billion from 1998.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

Certain statements in this report contain "forward-looking" information that involves risk and uncertainty, including projections for deliveries, customer financing, sales, revenues, margins, free cash flow, research and development, inventory turn rates, employment, asset utilization, productivity improvement, pension income, new business and new business opportunities, value potential, and other trend projections. This forward-looking information is based upon a number of assumptions including assumptions regarding demand; current and future markets for the Company's products and services; internal performance; product performance; customer, supplier and subcontractor performance; government policies and actions; and successful execution of acquisition and divestiture plans. 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 continued research and development, production rate increases and decreases, production system initiatives, timing of product deliveries and launches, asset management plans, procurement plans, and other cost-reduction efforts; acceptance of new products and services; product performance risks; the cyclical nature of some of the Company's businesses; volatility of the market for certain products and services; domestic and international competition in the defense, space and commercial areas; actions by regulatory agencies in regard to the proposed acquisition of Hughes space and communication businesses; continued integration of acquired businesses; uncertainties 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; real estate market value fluctuations in areas where company facilities are located; price escalation trends; the outcome of political and legal processes, including uncertainty regarding government funding of certain programs; changing priorities or reductions in the U.S. Government or foreign government defense and space budgets; termination of government contracts due to unilateral government action or failure to perform; legal, financial and governmental risks related to international transactions; legal proceedings; and other economic, political and technological risks and uncertainties.

Revenues by industry segment:



Commercial Airplanes

Commercial Airplanes products and services accounted for 66%, 66% and 59% of total operating revenues for the years 1999, 1998 and 1997.

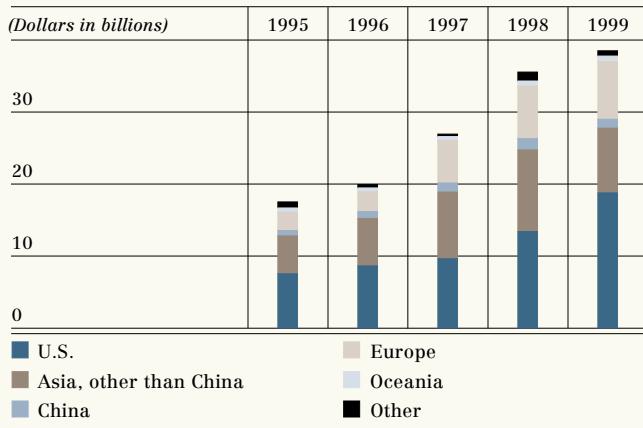
Total commercial jet aircraft deliveries by model, including deliveries under operating lease, which are identified by the numbers in parentheses, were as follows:

| | 1999 | 1998 | 1997 |
|--------------|------------|------------|------------|
| 717 | 12(2) | — | — |
| 737 Classic | 42 | 116(6) | 132 |
| 737 NG | 278 | 165 | 3 |
| 747 | 47 | 53(3) | 39 |
| 757 | 67 | 50 | 46 |
| 767 | 44(1) | 47 | 41 |
| 777 | 83 | 74 | 59 |
| MD-80 | 26(21) | 8(4) | 16(7) |
| MD-90 | 13 | 34 | 26(5) |
| MD-11 | 8 | 12(2) | 12(1) |
| Total | 620 | 559 | 374 |

The 737 Classic, MD-80 and MD-90 aircraft will not be produced after early 2000. The MD-11 program is scheduled to terminate production in 2000, with final deliveries in 2001. First delivery of the 717 aircraft occurred in the third quarter of 1999.

Total commercial aircraft deliveries for 2000 are currently projected to be in the range of 490 aircraft. Based on current plans, Commercial Airplanes revenues for 2000 are expected to be in the \$30 billion range. Total commercial aircraft deliveries for 2001 are currently projected to approximate total deliveries for 2000. Commercial aircraft transportation trends are discussed in the Commercial Airplanes Business Environment and Trends section on pages 42-43.

Commercial Airplanes sales by geographic region:



Military Aircraft and Missiles

Military Aircraft and Missiles segment revenues were \$12.2 billion in 1999, compared with \$13.0 billion in 1998.

The Military Aircraft and Missiles business segment is broadly diversified, and no program other than the C-17 transport program accounted for more than 15% of total 1998-1999 segment revenues.

The principal contributors to 1999 Military Aircraft and Missiles segment revenues included the C-17 Globemaster, F-15 Eagle, F/A-18 C/D Hornet, F/A-18 E/F Super Hornet, AH-64 Apache, F-22 Raptor, CH-47 Chinook, and V-22 Osprey programs, along with aerospace support programs.

Deliveries of selected production units were as follows:

| | 1999 | 1998 | 1997 |
|---------------|------|------|------|
| C-17 | 11 | 10 | 7 |
| F-15 | 35 | 39 | 19 |
| F/A-18 C/D | 25 | 29 | 46 |
| F/A-18 E/F | 13 | 1 | — |
| T-45TS | 12 | 16 | 11 |
| CH-47 Chinook | 14 | 18 | 1 |
| 757 - C-32A | — | 4 | — |
| AH-64 Apache | 11 | 5 | 2 |

Military Aircraft and Missiles segment revenues for 2000 are projected to be in the \$12 billion range.

Segment business trends are discussed in the Military Aircraft and Missiles Business Environment and Trends section on page 44.

Space and Communications

Space and Communications segment revenues were \$6.8 billion in 1999, compared with \$6.9 billion in 1998. The segment is well diversified. Only the International Space Station program, which accounted for approximately 19% of revenues for the previous two years, contributed more than 15% of revenues. Other principal contributors to 1999 Space and Communications segment revenues included National Missile Defense Lead System Integrator (NMD LSI), E-3 AWACS (Airborne Warning and Control System) updates and 767 AWACS, Space Shuttle Flight Operations and Main Engine, Delta space launch services, and classified projects for the U.S. Government.

Deliveries of selected production units were as follows:

| | 1999 | 1998 | 1997 |
|-----------|------|------|------|
| 767 AWACS | 2 | 2 | - |
| Delta II | 11 | 13 | 12 |
| Delta III | 1 | 1 | - |

Space and Communications segment revenues for 2000 are projected to be in the range of \$7.5 billion to \$8.0 billion, excluding the potential impact of the proposed acquisition of Hughes space and communications business described on page 45. Growth is anticipated primarily from recent capture of classified government programs supporting the National Reconnaissance Office and the NMD LSI program.

Segment business trends are discussed in the Space and Communications Business Environment and Trends section on page 45.

Customer and Commercial Financing/Other

Operating revenues in the Customer and Commercial Financing/Other segment were \$837 million in 1999, compared with \$730 million in 1998 and \$746 million in 1997. The major revenue components include commercial aircraft financing and commercial equipment leasing.

Additional information about revenues and earnings contributions by business segment is presented on page 50.

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Based on current schedules and plans, the Company projects total 2000 revenues to be approximately \$50 billion.

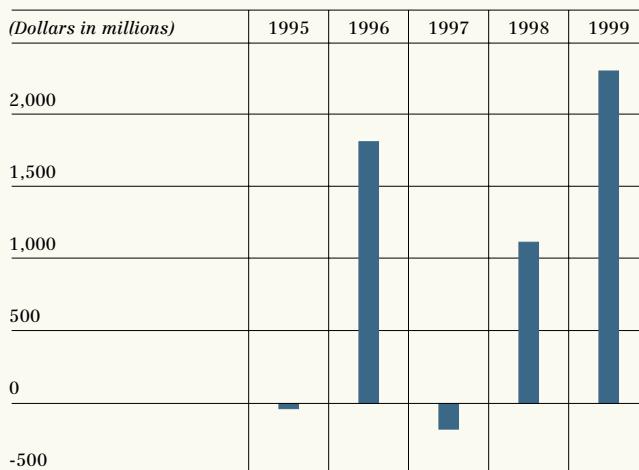
Earnings

Net earnings for the three years include a significant provision to cost of products and services in 1997 in addition to earnings fluctuations associated with the Company's share-based plans.

In the fourth quarter of 1997, the Company completed an assessment of the financial impact of its post-merger strategy decisions related to its McDonnell Douglas Corporation commercial product lines, and recorded provisions of \$1,400 million, or \$876 million after tax, relative to these decisions. These provisions principally represented an inventory valuation adjustment based on post-merger assessments of the market conditions and related program decisions. Under the original product strategy decision, the passenger version of the MD-11 was to be terminated in late 2000, the final MD-80 would be delivered in late 1999, and the final MD-90 would be delivered in early 2000. Under the plans ultimately implemented, final delivery of the MD-80 occurred in 1999, and scheduled final deliveries are in first quarter 2000 for the MD-90 and in first quarter 2001 for the MD-11. These provisions are discussed in Note 7 to the consolidated financial statements.

The share-based plans are discussed on page 47 and in Note 18 to the Consolidated Financial Statements on page 66. Share-based plans resulted in an after-tax charge of \$130 million in 1999, \$96 million in 1998 and \$(66) in 1997.

Net earnings:



Net earnings of \$1,120 million for 1998 were \$1,298 million higher than the net loss of \$178 million for 1997. This was primarily due to the provision in 1997 of \$876 million after tax related to the McDonnell Douglas Corporation commercial product lines discussed above.

Other factors include higher commercial aircraft deliveries in 1998, a higher after-tax forward loss recognized in 1997 for the Next-Generation 737 (\$436 million in 1997 compared with \$218 million in 1998), merger-related expenses of \$120 million in 1997, and prior years' defense-related partnership research and development tax credits amounting to \$57 million recognized in 1998. Additionally, interest income was lower in 1998, and share-based plans expense was \$162 million higher in 1998 on an after-tax basis.

Net earnings of \$2,309 million for 1999 were \$1,189 higher than 1998 earnings primarily due to higher earnings from operations that are discussed in the following paragraphs. Increased operating earnings resulted principally from higher Commercial Airplanes segment margins that reflect improved production efficiencies, as well as earnings from increased Commercial Airplanes revenue, and lower research and development company-wide, which decreased by \$554 million to \$1,341 million pretax in 1999. Offsetting these increases were charges of \$270 million (\$169 million after tax) associated with the F-15 program.

Other income was \$585 million in 1999 and \$283 million in 1998. The 1999 increase was principally due to \$289 million of interest income recorded from the Internal Revenue Service (IRS), and \$66 million associated with the receipt and subsequent sale of shares resulting from an initial public offering of an insurer. Interest income from the IRS resulted from a partial agreement on the examination of the years 1988 through 1991.

The net amount recognized in the statement of financial position relative to pensions includes approximately \$7.2 billion of unrecognized net actuarial gains. The Company projects that in the near term, significant net periodic benefit income will be recognized due to pensions. Also, the increase in assumed cost growth used to calculate retiree health care costs (10% annual growth rate for 1999, decreasing to a 5.5% annual growth rate by 2010) is projected to result in increased retiree health care costs.

Operating results trends are not significantly influenced by the effect of changing prices since most of the Company's business is performed under contract.

Operating Earnings

Commercial Airplanes

The 1999 Commercial Airplanes segment earnings of \$2,016 million (based on the cost of specific airplane units delivered – see discussion under *Segment Information* on page 48) resulted in an earnings from operations margin of 5.2%, or 6.8% exclusive of research and development expense. Comparable results for 1998 were a loss of \$266 million, and earnings from operations margin of (0.7)%, or 2.0% exclusive of research and development expense.

The increased earnings and margins for 1999 were principally due to substantially improved production performance across the segment. Margins on the Next-Generation 737 and 777 programs reflected significant learning curve improvement and unit cost performance. Additionally, Commercial Airplanes segment research and development decreased by \$436 million to \$585 million in 1999.

The 1998 Commercial Airplanes segment loss of \$266 million compares with a loss of \$1,589 for 1997. The significant segment loss in 1997 resulted from the provision related to the McDonnell Douglas Corporation commercial aircraft product line discussed in Note 7 to the consolidated financial statements, and production problems.

Production problems experienced on the commercial aircraft programs reached unexpected levels late in the third quarter of 1997. During this period, the Company was in the midst of an unprecedented production rate build-up for the 7-series commercial aircraft programs, and experienced a number of challenges, including raw material shortages, internal and supplier parts shortages, and productivity inefficiencies associated with adding thousands of new employees. These factors 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, presented a situation where disrupted process flows caused major inefficiencies throughout the entire process chain. The 747 and 737 production lines were halted for approximately one month in 1997. The recovery plan continued throughout 1998.

In 1999, the Company delivered the initial units of the 717 program. The 717 program is accounted for under the program method of accounting described in Note 1 to the consolidated financial statements. The Company has established the program accounting quantity at 200 units. The Company will record 717 deliveries on a break-even basis until such time as program reviews indicate positive gross profit within the program accounting quantity. Such program reviews could include revised assumptions of revenues and costs, or an increase in the program quantity if warranted by additional program orders. The Company has significant exposures related to the 717 program, principally attributable to pricing pressures and the slow build-up of firm orders. Current firm contracts for the 717 program include a contract for 50 airplanes with Trans World Airlines (TWA). TWA continues to operate under a reorganization plan, confirmed by the U.S. Bankruptcy Court in 1995, which restructured its indebtedness and leasehold obligations to creditors.

The commercial jet aircraft market and the airline industry remain extremely competitive. Competitive pressures and increased lower-fare personal travel have combined to cause a long-term downward trend in passenger revenue yields worldwide (measured in real terms). Market liberalization within Europe has enabled low-cost airlines to enter the market. These airlines increase the downward pressure on air fares, similar to the competitive environment in the United States. Although current trends have begun to show some improvements in Asia, slowing economies, reduced business travel, and currency devaluations have recently contributed to sharply lower yields. These factors result in continued price pressure on the Company's products. Major productivity gains are essential to ensure a favorable market position at acceptable profit margins.

Military Aircraft and Missiles

Military Aircraft and Missiles segment operating earnings for 1999 and 1998 were \$1,193 million and \$1,283 million. The segment operating margins were 9.8% and 9.9% for 1999 and 1998. The 1999 operating results included a favorable contract settlement amounting to \$55 million and pretax charges of \$270 million associated with the F-15 program. The Company had procured and committed to long-lead items in anticipation of additional F-15 orders. In the third quarter of 1999, the Company assessed that there was a limited near-term market for F-15s based on revised market analysis, recent international customer decisions, and actions then pending in Congress. As a result of these revised market assessments, the Company recorded a \$225 million pretax charge associated with F-15 program inventory. Additionally, in the second quarter of 1999, the Company recognized a pretax charge of \$45 million attributable to the impairment of certain F-15 inventory costs incurred in support of a potential sale to the government of Greece which did not materialize.

A significant percentage of Military Aircraft and Missiles segment business has been in developmental programs under cost-reimbursement-type contracts, which generally have lower profit margins than fixed-price-type contracts. Current major developmental programs include the F-22 Raptor, Joint Strike Fighter, V-22 Osprey tiltrotor aircraft, and the RAH-66 Comanche helicopter. The V-22 program is currently transitioning to low-rate initial production, while the F/A-18 E/F program transitioned to low-rate initial production during 1999.

In 1998 the Company announced that it would exit the market for commercial helicopters. As part of that strategic decision, in early 1998, the Company transferred its interest in the Civil Tiltrotor program to Bell Helicopter Textron. Also, in the first quarter of 1999, the Company sold the MD 500, MD 600 and MD Explorer light-commercial helicopter product lines to RDM Holding, Inc., a European-based industrial group.

Space and Communications

Space and Communications segment operating earnings for 1999 and 1998 were \$415 million and \$248 million. Segment operating margins were 6.1% and 3.6% for 1999 and 1998. The 1999 operating results included a pretax gain of \$95 million related to the sale of Boeing Information Systems (BIS), which provides the federal government with information and systems integration services, to Science Applications International Corporation in July 1999. Operating results for 1998 and 1999 also included favorable contract settlements. Excluding the impact of these contract settlements and the BIS sale, operating margins were 4.0% and 2.9% for 1999 and 1998.

The segment operating margins are reduced by significant company investment in the development of new products, particularly the Delta IV launch vehicle and the new 737-based airborne early warning and control aircraft. In addition, a significant percentage of Space and Communications segment business has been performed under cost-reimbursement-type contracts, which generally have lower profit margins than higher-risk fixed-price-type contracts. Current major cost-reimbursement programs include the International Space Station, NMD LSI, Space Shuttle Flight Operations and Space Shuttle Main Engine. Excluding research and development expense, contract settlements and the BIS sale, Space and Communications margins were 11.2% for 1999 and 1998. The segment's 2000 operating margins are expected to be impacted by continued significant new product development expenses. Margins should begin to improve in 2001 when the Delta IV program enters the operational phase.

The primary factor that is evaluated in building projections for the need for commercial launch services is the commercial satellite market. Recent commercial satellite program start-up delays and system changes have caused a softening of the market. Depending on the outcome of these programs, and a successful Delta III launch, forward-looking financial projections for the Company's launch business, principally for the Delta III vehicle, may be adversely impacted. A Delta III demonstration launch at company expense may be required to prove system reliability. In addition, the Company has exposures related to work in process inventory and supplier commitments for the Delta III program beyond firm customer commitments. The Company continues to closely monitor these issues.

A significant portion of the Company's equity in income from joint ventures relates to Space and Communications segment activity. The principal joint ventures are Sea Launch and United Space Alliance.

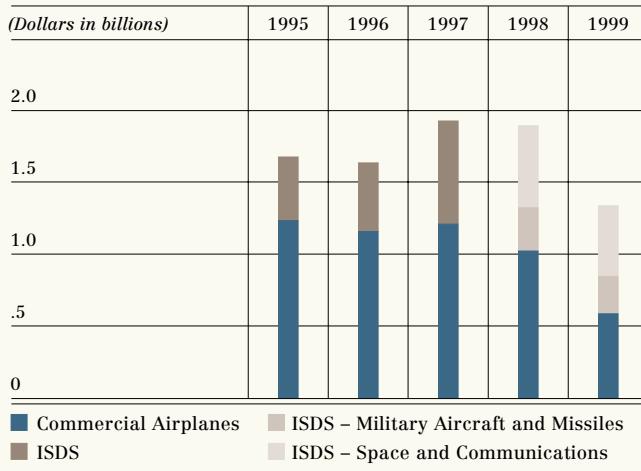
Sea Launch is a commercial satellite launch venture with Norwegian, Russian and Ukrainian partners. Boeing is a 40% partner in Sea Launch with RSC Energia (25%) from Russia, Kvaerner Maritime (20%) from Norway, and KB Yuzhnoye/PO Yuzhmach (15%) from Ukraine. In March 1999 Sea Launch conducted a successful first launch from a sea-based platform, placing a demonstration payload in a perfect orbit. Sea Launch initiated commercial operations in October 1999 with a second flawless launch delivering a DirecTV satellite payload for Hughes Space & Communications International, Incorporated. Hughes and Space Systems/Loral are the initial Sea Launch customers, with announced orders, as of the end of 1999, for 18 launches in backlog plus options for additional launches. The venture incurred losses in 1999 related to development costs, expensed as incurred, and losses related to the demonstration launch and initial operations. Space and Communications segment operating earnings include losses of \$57 million and \$87 million for 1999 and 1998 attributable to the Sea Launch venture.

The Company and Lockheed Martin are 50/50 partners in United Space Alliance, which is responsible for all ground processing of the Space Shuttle fleet and for space-related operations with the U.S. Air Force. United Space Alliance also performs the modifications, testing and checkout operations required to ready the Space Shuttle for launch. Although the joint venture operations are not included in the Company's consolidated statements, the Company's proportionate share of joint venture earnings is recognized in income. Space and Communications segment operating earnings include earnings of \$48 million and \$46 million for 1999 and 1998 attributable to United Space Alliance.

Research and Development

Research and development expenditures charged directly to earnings include design, developmental and related test activities for new and derivative commercial jet aircraft, other company-sponsored product development, and basic research and development, including amounts allocable as overhead costs on U.S. Government contracts.

Research and development expense:



In 1999, total research and development was approximately \$1.3 billion, compared with approximately \$1.9 billion in both 1998 and 1997.

In 1999, research and development declined in each operating group relative to 1998. The most significant decline was attributable to the Commercial Airplanes segment and related to the timing of major commercial aircraft developmental programs. In 1998, the decline in the Commercial Airplanes segment research and development expense was largely offset by an increase in the Space and Communications segment.

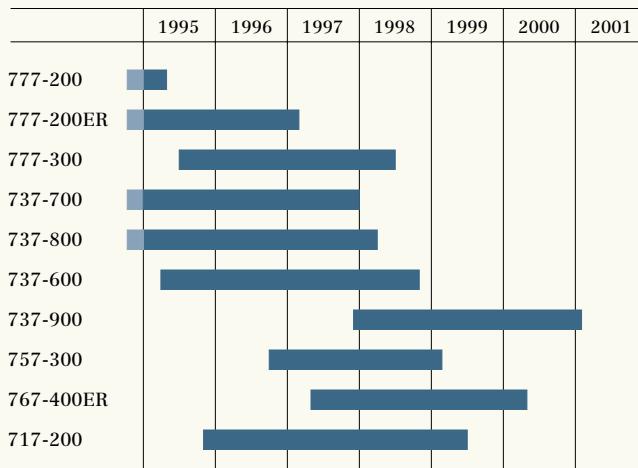
Commercial Airplanes

The principal commercial aircraft developmental programs during the 1997-1999 period were the Next-Generation 737 family, the 767-400ER, the 717 program, the 757-300 derivative, and the 777-300 widebody twinjet derivative.

Certification and first deliveries of the 737-700, the first of four new 737 derivative models, occurred in December 1997. Certification and first delivery of the 737-800 and 737-600 occurred in 1998. The 737-900, the longest member of the Next-Generation 737 family, received its first order in late 1997, with first delivery scheduled for 2001. The 767-400ER, a stretched version of the 767-300ER, is scheduled for first delivery in the year 2000. First delivery of the 717 occurred in September 1999. First delivery of the 757-300, a

stretched derivative of the 757-200, occurred in March 1999. First delivery of the increased-capacity 777-300 derivative occurred in May 1998.

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



Military Aircraft and Missiles

The Military Aircraft and Missiles segment continues to pursue business opportunities where it can use its technical and large-scale integration capabilities. The segment's level of research and development expenditures is consistent with this approach, and reflects the recent business environment, which has presented few major new-start opportunities. Current research and development activities are focused on winning the Joint Strike Fighter engineering, manufacturing and development contract.

Space and Communications

The Space and Communications segment continues to invest significantly to develop new products. Research and development expenditures support the development of the Delta family of launch vehicles, the new 737-based airborne early warning and control aircraft, and commercial space-based broadband mobile information and communications systems. Delta IV development expenses are reduced by the U.S. Government's participation in developing the Evolved Expendable Launch Vehicle (EELV).

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Total Company research and development expenditures for 2000 will be influenced by the timing of commercial aircraft derivative programs and commercial space and communication activities. Based on current programs and plans, research and development expense for 2000 is expected to be approximately \$1.5 billion, which reflects slight increases in all segments relative to 1999 levels. Research and development activities are further discussed in the Strategic Investments for Long-Term Value section on pages 46-47.

Income Taxes

The 1999 effective income tax rate of 30.5% varies from the federal statutory tax rate of 35% principally due to Foreign Sales Corporation (FSC) tax benefits of \$230 million. Offsetting this benefit are state income taxes and the non-deductibility of goodwill.

The 1998 effective income tax rate of 19.8% reflects the settlement of prior years' defense-related partnership research and development tax credits of \$57 million, as well as FSC tax benefits of \$130 million. The income tax provision for 1997 is a tax credit resulting from application of the tax rate to a pretax loss.

The income tax provision in 1997 is lower than the statutory amount, principally due to FSC tax benefits of \$79 million. These benefits were partially offset by the nondeductibility of goodwill and merger costs.

The European Union filed a challenge to U.S. Foreign Sales Corporation tax provisions with the World Trade Organization (WTO). On February 25, 2000, the WTO issued a final decision upholding this challenge. Officials representing the United States on trade issues continue to seek resolution through a negotiated settlement. It is not possible to predict what impact, if any, this issue will have on future earnings pending final determination of the manner and scope of the U.S. Government response.

Additional information relating to income taxes is found in Note 13 to the Consolidated Financial Statements on pages 61-62.

Labor Negotiations and Workforce Levels

As of December 31, 1999, the Company's principal collective bargaining agreements were with the International Association of Machinists and Aerospace Workers (IAM), representing 23% of employees (current agreements expiring May 2001, September 2002, October 2002); the Society of Professional Engineering Employees in Aerospace (SPEEA), representing 11% of employees (currently not under contract); the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), representing 5% of employees (current agreements expiring April 2000, September 2002, and May 2003); and Southern California Professional Engineering Association (SCPEA), representing 2% of employees (current agreement expiring March 2001).

The Company has been in negotiations with SPEEA, representing approximately 22,000 engineers and technicians. On February 9, 2000, members of SPEEA, having rejected the Company's second contract proposal, elected to strike. On February 26, 2000, SPEEA rejected the Company's third and final contract offer. On March 2, 2000, the Company informed SPEEA that given the substantial differences between the parties that had developed during the past several months, the Company believed the parties were at impasse. As of March 6, 2000, the strike continued. The strike has impacted the Company's operations and production, particularly in the Commercial Airplanes segment, where first quarter 2000 deliveries will be affected, and second quarter 2000 deliveries may be affected. The total effect of the strike on deliveries, the results of operations and financial position is uncertain, but could be material depending on the strike duration, the nature of post-strike recovery plans and the performance of other segments.

The Company's workforce level was 197,000 at December 31, 1999. Year-end 2000 workforce levels are projected to be in the range of 180,000 to 190,000.

Derivative Instruments and Hedging Activities

The Company has not completed the process of evaluating the impact that will result from adopting Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The Company therefore has not yet identified the impact that adopting SFAS No. 133 will have on its financial position and results of operations. SFAS No. 133 is required to be adopted in 2001.

LIQUIDITY AND CAPITAL RESOURCES

The primary factors that affect the Company's investment requirements and liquidity position, other than operating results associated with current sales activity, include the timing of new and derivative programs requiring both high developmental expenditures and initial inventory buildup; cyclical growth and expansion requirements; customer financing assistance; the timing of federal income tax payments; the Company's stock repurchase plan; and proposed acquisitions, such as the Hughes space and communications business transaction discussed on page 45.

Cash Flow Summary

Following is a summary of Company cash flows based on changes in cash and short-term investments. This cash flow summary is not intended to replace the Consolidated Statements of Cash Flows on page 53 that are prepared in accordance with generally accepted accounting principles, but is intended to highlight and facilitate understanding of the principal cash flow elements. Free cash flow in the table below is defined as cash flow from operations less change in short-term investments, reduced by facilities and equipment expenditures.

| (Dollars in billions) | 1999 | 1998 | 1997 |
|----------------------------------|--------|---------|----------|
| Net earnings (loss) | \$ 2.3 | \$ 1.1 | \$ (0.2) |
| Non-cash charges to | | | |
| earnings (a) | 1.8 | 1.8 | 1.4 |
| Change in gross inventory (b) | 5.6 | 1.5 | (3.9) |
| Change in customer | | | |
| advances (c) | (3.6) | (0.8) | 3.9 |
| Net changes in receivables, | | | |
| liabilities, deferred income | | | |
| taxes and other (d) | 0.2 | (1.3) | 1.1 |
| Facilities and equipment | | | |
| expenditures | (1.2) | (1.7) | (1.4) |
| Pension income (expense) | | | |
| variance to funding | (0.3) | (0.2) | (0.3) |
| Free cash flow | 4.8 | 0.4 | 0.6 |
| Proceeds from dispositions (e) | 0.4 | | |
| Change in customer and | | | |
| commercial financing (f) | (0.6) | (1.2) | (0.9) |
| Change in debt (g) | (0.2) | 0.1 | (0.6) |
| Net shares issued (acquired) (h) | (2.9) | (1.3) | 0.3 |
| Cash dividends | (0.5) | (0.6) | (0.6) |
| Increase (decrease) in cash | | | |
| and short-term investments | \$ 1.0 | \$(2.6) | \$(1.2) |
| Cash and short-term | | | |
| investments at end of year | \$ 3.5 | \$ 2.5 | \$ 5.1 |

(a) Non-cash charges to earnings as presented here consist of depreciation, amortization, retiree health care accruals, customer and commercial financing valuation provision and share-based plans. The Company has not funded retiree health care accruals and, at this time, has no plan to fund these accruals in the future. The share-based plans do not impact current or future cash flow, except for the associated positive cash flow tax implications.

(b) Production and tooling inventory associated with the Next-Generation 737 program increased substantially, especially during 1997 and 1998. Inventory balances on the 747, 757 and 767 commercial jet programs increased in 1997 and 1998 due to increased production rates. The decrease in inventory in 1999 resulted principally from decreased production rates on the 777 and 747 programs and improved inventory cycle time.

(c) The changes in commercial customer advances during 1997, 1998 and 1999 were broadly distributed among the commercial jet programs, and generally correspond to orders and production rate levels. With regard to the Aircraft and Missiles segment and Space and Communications segment activity, the ratio of progress billings to gross inventory did not significantly change during this period.

(d) The net change in receivables, liabilities, deferred income taxes and other resulted in no impact to cash for the three-year period presented. The net increase in cash attributable to changes in income taxes payable and deferred was \$0.2 billion. Excluding potential tax settlements discussed in Note 13 to the consolidated financial statements, federal income tax payments over the next two years are projected to substantially exceed income tax expense due to anticipated completion of contracts executed under prior tax regulations.

(e) Proceeds from dispositions include receipts from the sale of subsidiaries and the sale of real property. Included in the proceeds for 1999 are receipts of approximately \$162 million related to the sale of Boeing Information Systems.

- (f) The changes in customer financing balances have been largely driven by commercial aircraft market conditions and the ability of the Company to sell customer financing assets. Over the three-year period 1997-1999, the Company generated \$4.4 billion of cash from principal repayments and by selling customer financing receivables and operating lease assets. Over the same period, additions to customer financing amounted to \$6.9 billion. As of December 31, 1999, the Company had outstanding commitments of approximately \$4.8 billion to arrange or provide financing related to aircraft on order or under option for deliveries scheduled through the year 2004. Not all these commitments are likely to be used; however, a significant portion of these commitments is with parties with relatively low credit ratings. See Note 21 to the consolidated financial statements concerning concentration of credit risk. Outstanding loans and commitments are primarily secured by the underlying aircraft.
- (g) Debt amounting to \$650 million matured in 1999. Debt amounting to \$300 million matured in 1998, and \$300 million was added with maturity in 2038. In 1997, debt amounting to \$637 million matured, and the Company also retired \$230 million of debt through a tender offer for the 9.25% notes due April 1, 2002. Additionally, Boeing Capital Corporation, a corporation wholly owned by the Company, issued \$400 million of debt in 1999, \$511 million in 1998, and \$225 million in 1997.
- (h) In the third quarter of 1998, the Company announced a share repurchase program to buy up to 15% of the Company's outstanding shares of common stock. In 1998, the Company repurchased 35.2 million shares of stock for \$1.3 billion, and in 1999, the Company repurchased 68.9 million shares for \$2.9 billion.

Capital Resources

The Company has long-term debt obligations of \$6.0 billion, which are unsecured. Approximately \$480 million mature in 2000, and the balance has an average maturity of 15 years. Total long-term debt as of year-end 1999 amounted to 34% of total capital (shareholders' equity plus borrowings). The Company has substantial additional long-term borrowing capability. Revolving credit line agreements with a group of major banks, totaling \$2.64 billion, remain available but unused.

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

Contingent Items

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

In 1991, the U.S. Navy notified the Company and General Dynamics Corporation (the Team) that it was terminating for default the Team's contract for development and initial production of the A-12 aircraft. The Team filed a legal action to contest the Navy's default termination, to assert its rights to convert the termination to one for "the convenience of the Government," and to obtain payment for work done and costs incurred on the A-12 contract but not paid to date. As of December 31, 1999, inventories included approximately \$581 million of recorded costs on the A-12 contract, against which the Company has established a loss provision of \$350 million. The amount of the provision, which was established in 1990, was based on the Company's belief, supported by an opinion of outside counsel, that the termination for default would be converted to a termination for convenience, that the Team would establish a claim for contract adjustments for a minimum of \$250 million, that there was a range of reasonably possible results on termination for convenience, and that it was prudent to provide for what the Company then believed was the upper range of possible loss on termination for convenience, which was \$350 million.

On July 1, 1999, the United States Court of Appeals for the Federal Circuit reversed a March 31, 1998, judgment of the United States Court of Federal Claims for the Team. The 1998 judgment was based on a determination that the Government had not exercised the required discretion before issuing a termination for default. It converted the termination to a termination for convenience, and determined the Team was entitled to

be paid \$1,200 million, plus statutory interest from June 26, 1991, until paid. The Court of Appeals remanded the case to the Court of Federal Claims for a determination as to whether the Government is able to sustain the burden of showing a default was justified and other proceedings. Final resolution of the A-12 litigation will depend on such litigation and possible further appeals, or negotiations with the Government.

In the Company's opinion, the loss provision continues to provide adequately for the reasonably possible reduction in value of A-12 net contracts in process as of December 31, 1999, as a result of a termination of the contract for the convenience of the Government. The Company has been provided with an opinion of outside counsel that (i) the Government's termination of the contract for default was contrary to law and fact, (ii) the rights and obligations of the Company are the same as if the termination had been issued for the convenience of the Government, and (iii) subject to prevailing on the issue that the termination is properly one for the convenience of the Government, the probable recovery by the Company is not less than \$250 million.

On October 31, 1997, a federal securities lawsuit was filed against the Company in the U.S. District Court for the Western District of Washington, in Seattle. The lawsuit names as defendants the Company and three of its then-executive officers. Additional lawsuits of a similar nature have been filed in the same court. These lawsuits were consolidated on February 24, 1998. Initially, the plaintiffs sought to represent a class of purchasers of Boeing stock between July 21, 1997, and October 22, 1997, (the "Class Period"), including recipients of Boeing stock in the McDonnell Douglas merger. (July 21, 1997, was the date on which the Company announced its second quarter results, and October 22, 1997, was the date on which the Company announced charges to earnings associated with production problems being experienced on commercial aircraft programs.) The lawsuits generally allege that the defendants desired to keep the Company's share price as high as possible in order to ensure that the McDonnell Douglas shareholders would approve the merger and, in the case of two of the individual defendants, to benefit directly from the sale of Boeing stock during the Class Period. By orders dated September 15, 1999, and February 3, 2000, plaintiffs were granted leave to amend their complaint to broaden their action (1) to encompass claims of the original proposed class members for Boeing securities purchases made between April 7, 1997 and July 20, 1997; (2) to include certain alleged misstatements purportedly made by the Company going back to April 7, 1997; and (3) to add allegations that the Company's 10-Q reports

for the first and second quarters of 1997 were false and misleading. The plaintiffs seek compensatory damages and treble damages. The court has not yet ruled on class certification. The action is currently set for trial on October 2, 2000. The Company believes that the allegations are without merit and that the outcome of these lawsuits will not have a material adverse effect on its earnings, cash flow or financial position.

On October 19, 1999, an indictment was returned by a federal grand jury sitting in the District of Columbia charging that McDonnell Douglas Corporation (MDC), a wholly owned subsidiary of the Company, and MDC's Douglas Aircraft Company division, conspired to and made false statements and concealed material facts on export license applications and in connection with export licenses, and possessed and sold machine tools in violation of the Export Administration Act. The indictment also charges one employee with participation in the alleged conspiracy. The indictment relates to the sale and export to China in 1993-1995 of surplus, used machine tools sold by Douglas Aircraft Company to China National Aero-Technology Import and Export Corporation for use in connection with the MD-80/90 commercial aircraft Trunkliner Program in China.

As a result of the indictment, the Department of State has discretion to deny defense-related export privileges to MDC or a division or subsidiary of MDC. The agency exercised that discretion on January 5, 2000, by establishing a "denial policy" with respect to defense-related exports of MDC and its subsidiaries; most of MDC's major existing defense programs were, however, excepted from that policy due to overriding U.S. foreign policy and national security interests. Other exceptions may be granted. There can, however, be no assurance as to how the Department will exercise its discretion as to program or transaction exceptions for other programs or future defense-related exports. In addition, the Department of Commerce has authority to temporarily deny other export privileges to, and the Department of Defense has authority to suspend or debar from contracting with the military departments, MDC or a division or subsidiary of MDC. Neither agency has taken action adverse to MDC or its divisions or subsidiaries thus far. Based upon all available information, the Company does not expect actions that would have a material adverse effect on its financial position or continuing operations. In the unanticipated event of a conviction, MDC would be subject to Department of State and Department of Commerce denials or revocations of MDC export licenses. MDC also would be subject to Department of Defense debarment proceedings.

Year 2000 (Y2K) Date Conversion

Summary of readiness: The Company recognized this challenge early, and each group began working on the problem in 1993. The Company's Y2K strategy, to make systems "Y2K-ready," included a common companywide focus on methods and correction tools, and coordination with customers. This focus was on all systems potentially impacted by the Y2K, including information technology (IT) systems and non-IT systems, such as product-embedded, facilities and factory floor systems. Each operating group was responsible for its own conversion, in line with overall guidance and oversight provided by a corporate-level steering committee.

Costs to address Y2K issues: The Company's Y2K conversion efforts have not been budgeted and tracked as independent projects, but have occurred in conjunction with normal sustaining activities. The Company estimates that IT Y2K conversion efforts represent the majority of conversion efforts, and have averaged annually \$35 million during 1996-1998, representing on average 10% of the total application-sustaining IT costs during that period. Y2K conversion costs represented a lower percentage of total application sustaining IT costs in 1999. In addition to these sustaining costs, the discretely identifiable IT costs associated with Y2K conversion activities totaled approximately \$16 million. The Company does not expect a reduction in sustaining costs now that Y2K conversion activities are completed because normal sustaining activities will be ongoing. Reprioritizing sustaining activities to support Y2K had no adverse impact on operations.

Risks associated with Y2K issues: Due to the Company's early recognition and start on resolving the Y2K issue, the Company believed there was a low risk of any internal critical system, product-embedded system, or other critical Company asset not functioning properly during the date conversion. The Company assessed its risk exposure due to external factors and suppliers, including suppliers outside the United States. Additionally, the Company worked with its customers and suppliers, conducting test scenarios to assess Y2K readiness.

Although the Company believed that the most reasonably likely worst-case Y2K scenario entailed production disruption due to inability of suppliers to deliver critical parts, the Company found no reason to conclude that any specific supplier represented a significant risk.

Enterprise-wide tests were successfully conducted during the third and fourth quarters of 1999 to validate the Company's ability to communicate under multiple emergency scenarios. While the Company did not anticipate significant challenges during the Y2K rollover period, its communication centers were fully staffed during the transition. The Company also worked closely with local, state and federal emergency management organizations to ensure coordinated plans were in place should infrastructure problems occur during the year 2000 transition.

Year 2000 transition outcome: Boeing experienced a successful year 2000 rollover with minimal problems reported and minimal impact to business operations. Several application problems were identified and standard resolution processes were deployed, resulting in timely correction.

Market Risk Exposure

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

The Company is subject to foreign currency exchange rate risk relating to receipts from customers and payments to suppliers in foreign currencies. As a general policy, the Company substantially hedges foreign currency commitments of future payments and receipts by purchasing foreign currency-forward contracts. As of December 31, 1999, the notional value of such derivatives was \$521 million, with a net unrealized loss of \$5 million. Less than 2% of receipts and expenditures are contracted in foreign currencies, and the Company does not consider the market risk exposure relating to currency exchange to be material.

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

Global Economic and Passenger Traffic Trends

As the world economy improved in this decade, airline passenger traffic increased. For the five-year period 1995-1999, the average annual growth rate for worldwide passenger traffic was approximately 5.5%. The Company's 20-year forecast of the average long-term growth rate in passenger traffic is approximately 4.7% annually, based on projected average worldwide annual economic real growth of 2.9% over the 20-year period.

Based on global economic growth projections over the long term, and taking into consideration increasing utilization levels of the worldwide aircraft fleet and requirements to replace older aircraft, the Company projects the total commercial jet aircraft market over the next 20 years at more than \$1,000 billion in 1999 dollars.

Airline Deregulation

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

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

Asia-Pacific Economies

In 1999 the economies of Japan, Malaysia, the Philippines, Hong Kong, Singapore, Indonesia, Thailand and South Korea indicated positive growth, signifying a reduction or curtailment of the recession previously affecting these economies. After 11 months of decline, air travel is also showing positive growth, and this is resulting in airlines beginning to show increased passenger yields. Some airlines in this region, however, continued to report losses. The Company believes that increased airplane orders will occur from airlines in the Asia-Pacific region when their financial position improves.

Airline Industry Environment

Through a combination of passenger traffic growth, improved revenue, lower fuel costs and aggressive cost control measures, the airline industry as a whole significantly improved operating profitability and net earnings over the past few years. The industry realized a substantial positive level of earnings over the five-year period 1995-1999. The outlook for passenger traffic growth in 2000 is generally positive, especially in the United States, Europe, and for trans-Atlantic flights. Continued profitability levels depend on sustained economic growth, limited wage increases, and capacity additions in line with traffic increases.

Mandated Noise Level Compliance

A mandate went into effect January 1, 2000, requiring that all operations into and out of U.S. airports must be made with Stage 3 noise level compliant airplanes. Compliance with this policy was a significant factor for the record single-aisle airplane deliveries during 1998 and 1999. Beginning in 2000, near-term demand for new airplanes will reflect principally a requirement for growth.

Industry Competitiveness and World Trade Policies

Over the past ten years, the Company (including McDonnell Douglas) has maintained, on average, approximately a two-thirds share of the available commercial jet aircraft market. Airbus Industrie is an aggressive competitor seeking to increase market share. This market environment has resulted in intense pressures on pricing and other competitive factors. The Company's focus on improving processes and other cost reduction efforts is intended to enhance its ability to pursue pricing strategies that enable the Company to maintain leadership at satisfactory margins.

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

Over the past five years, sales outside the United States have accounted for approximately 53% of the Company's total Commercial Airplanes sales; approximately 50% of the Commercial Airplanes contractual backlog at year-end 1999 was with customers based outside the United States. Continued access to global markets is extremely important to the Company's future ability to fully realize its sales potential and projected long-term investment returns.

For more than three decades, the European governments have provided the partner companies of Airbus Industrie subsidized loans to develop commercial aircraft. The prior grants of subsidized loans to these European aerospace companies have been of significant magnitude and have represented a serious concern to the United States and the Company for several years.

In 1992, the United States and the European Union entered into a bilateral agreement disciplining government subsidies to Airbus Industrie. Among other things, the agreement limited the amount of the subsidy to no more than 33% of the total development costs for each aircraft program. It also calls for a "progressive reduction" in that level of support. However, in 1994, more than 130 countries, including all the states of the European Union, signed the Subsidies and Countervailing Measures ("SCM") Agreement at the World Trade Organization in Geneva. The 1994 SCM Agreement prohibits government subsidies to virtually all industries, including the aerospace industry. The Company welcomes the restructuring of Airbus into a "Single Corporate Entity" as long as it complies with the 1994 SCM and results in more transparent financial reporting.

The World Trade Organization (WTO), based in Geneva, promotes open and non-discriminatory trade among its members. Among other things, it administers an improved SCM Agreement, applicable to all members, that provides important protections against injurious subsidies by governments. It also uses improved dispute settlement procedures to resolve disagreements among nations – a provision not found in the 1992 bilateral agreement. The 1992 bilateral United States-European Union agreement and the WTO subsidies code constitute the basic limits on government supports of development costs.

See the discussion on page 37 concerning the European Union challenge that has been filed with the WTO related to U.S. Foreign Sales Corporation tax provisions.

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

In spite of the recent Asian economic difficulties, Company forecasts indicate that the airlines in China represent a significant potential market for commercial jet aircraft over the next 20 years. However, if the U.S. Government does not grant China unconditional and permanent "most favored nations" (Normal Trade Relations) treatment, the Company's ability to sell commercial aircraft to airlines in China could be severely constrained. The Company continues to support the Asia Pacific Economic Cooperation (APEC) forum to promote open trade and investment in the region. For other countries in Asia, economic growth must return if the potential of the region is to be realized.

Airlines in Russia and other states in the former Soviet Union operate a limited but increasing number of western-built aircraft. Because of slow economic growth, high customs duties, a shortage of foreign exchange, and legal and financing constraints, new aircraft orders have not been significant. The Company expects that the airlines and the aircraft manufacturing industry in this region will eventually be integrated into the international economy.

Summary

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

Boeing is the world's largest producer of military aircraft, and the second largest U.S. Department of Defense (DoD) supplier. The Company's programs are well balanced between current production and upgrade activities, post-production aerospace support activities, and major development programs with large potential production quantities.

General Environment

The major trends that shape the Military Aircraft and Missiles segment include the moderately increasing DoD budget, the smaller and aging force structure, the level of military engagement around the world, the increasing international demand for military aircraft and missiles, and consolidations within the industry.

The DoD remains the principal customer of this business segment, and DoD procurement funding levels are expected to increase moderately on an inflation-adjusted basis. The Company's DoD programs are benefiting from improved certainty regarding program funding levels, which has reduced the possibility that some programs would face termination or stretch-out.

Domestically, continuing demands for peacekeeping operations are driving high usage of equipment, and the aging of equipment is creating operating cost affordability pressures. However, there is insufficient DoD budget to adequately modernize equipment and maintain a high level of readiness. These factors contribute to awareness in Congress that the DoD budget may need to be increased further. This trend has also led to privatization of government facilities and has opened areas of growth for the Company in aerospace support. The Boeing Aerospace Support Center at Kelly Air Force Base, located near San Antonio, Texas, is an example of this activity.

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

The consolidation and rationalization of the European defense and space companies has been proceeding for several years, mainly within individual nations. The first step toward consolidation took place early in 1999 with the merger of British Aerospace (BAe) and GEC Marconi, resulting in the largest United Kingdom aerospace company, BAE Systems. The second step was the merger, pending regulatory approval, of Germany's DaimlerChrysler Aerospace AG (DASA), France's Aerospatiale Matra, and Spain's CASA (Construcciones Aeronauticas, SA), creating the European Aeronautics Defense & Space Corporation (EADS). This establishes EADS as the world's third largest aircraft and defense company behind Boeing and Lockheed Martin. Internationally, the largest European aerospace companies compete in many of the same market segments with the Company's products and services. These companies are also potential teaming partners.

Product Lines

The Military Aircraft and Missiles segment produces tactical fighters, trainers, helicopters, military transports, tankers, strike missiles, and special purpose airplanes for the U.S. and foreign governments. This segment also provides aerospace support products and services. The basic strategy is to provide a competitive product in every selected market. This business segment has several programs that are now in production for the DoD, such as the C-17 Transport, F/A-18 E/F, T-45 Trainer and V-22 Tiltrotor. Other programs include those that are still in development, such as the F-22 Raptor and RAH-66 rotorcraft, or in competitive development, such as the Joint Strike Fighter. Aerospace Support products and services include maintenance and modification, training systems, support systems, support services, and spares, repairs and supply chain management. Despite expected modest growth in global defense budgets, there continues to be strong international demand for military aircraft and missiles. Foreign sales approved by the U.S. Government are extending some product lines, such as the Harpoon missile and the AH-64 and CH-47 helicopters.

SPACE AND COMMUNICATIONS BUSINESS ENVIRONMENT AND TRENDS

Space and Communications addresses four major market areas: launch services (including on-orbit systems), human space flight and exploration, missile defense and space control, and information and communications.

Many environmental factors are affecting the outlook for the launch services business. In the near-term the softening of the non-geostationary satellite launch market and the resulting prediction of excess capacity in launch vehicle supply will create a more competitive atmosphere where price, availability of service and reliability will be critical success factors. Space and Communications is well positioned to offer full service capabilities to this market with the Delta family and Sea Launch commercial launch vehicles. As the future of this market evolves, Space and Communications is prepared to undertake a strong role with its participation in NASA-driven and industry-driven advanced space transportation technology developments.

NASA is the primary customer and major driver for the human space flight and exploration market. This market, based on NASA budget projections, is forecasted to be relatively flat at about \$5 billion per year over the next ten years. The largest near-term focus of this market is the successful completion and assembly of the International Space Station (ISS), for which Boeing is the prime contractor. To support ISS operations NASA will award contracts for the Crew Return Vehicle and the operations and utilization of ISS. Boeing is well positioned to pursue these contracts. The Space Shuttle continues to be the only U.S. vehicle to support the need for human access to space, and Boeing plays a key role in Shuttle operations and maintenance through the United Space Alliance Joint Venture. Once the International Space Station is assembled on-orbit, NASA is projected to address future attention and funding to continue to pursue the long-term goal of space exploration.

U.S. Government development and procurement funding are the principle drivers of the missile defense and space control market. This market includes components for theater, cruise and national missile defense. The Company's win of the National Missile Defense Lead Systems Integrator contract recognizes our capabilities to perform complex large-scale systems engineering and integration projects. This, along with the role as a sub-system supplier to the Patriot Missile defense system and propulsion supplier for the Theater High Altitude

Area Defense program, has established Boeing as a major player in the missile defense market. The Space and Communications segment also has a strong technical position in the emerging laser system applications market. As the governments of the United States and other allied nations pursue integrated solutions to ballistic and theater and cruise missile defense, Boeing is positioned to become a leading contractor for these integrated solutions.

The information and communications market is a large and diverse market that serves both government and commercial customers. The government segment includes airborne mission systems, satellite systems, space systems, and integrated systems of systems opportunities. The commercial services segment includes telecommunications, remote sensing, and next-generation aircraft navigation and route control. The commercial and government segments of this market require customer-focused solutions that provide seamless interfaces to multiple systems and applications. The Company's experience in large-scale systems integration projects, coupled with expertise from directly relevant programs such as Airborne Warning and Control System (AWACS) and Global Positioning System (GPS), will provide leverage for expansion in the information and communications marketplace.

Proposed Acquisition of Hughes Space and Communications Business

On January 13, 2000, the Company announced an agreement to acquire the Hughes space and communications business and related operations for \$3.75 billion. The transaction is subject to regulatory and government reviews and is expected to be finalized by the end of the second quarter of 2000. Hughes is a technological leader in space-based communications, reconnaissance, surveillance and imaging systems. It is also a leading manufacturer of commercial satellites. Under the definitive agreement, Boeing also will acquire Hughes Electron Dynamics, a supplier of electronic components for satellites, and Spectrolab, a provider of solar cells and panels for satellites.

STRATEGIC INVESTMENTS FOR LONG-TERM VALUE

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

New Product Development

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

In the commercial space arena, the Company is investing in the development of the Delta IV family of expendable launch vehicles and is leading the Sea Launch team to offer highly automated commercial satellite launching from a seagoing launch platform. These product offerings provide access to significant portions of the space launch market not previously available with the Delta II rocket. Sea Launch initiated commercial operations in October 1999. The Delta IV investment, coupled with the U.S. Air Force Evolved Expendable Launch Vehicle program, positions the Company for potential market share gains.

The Company continues to invest in the development of Airborne Early Warning & Control (AEW&C) systems. An AEW&C system based on a 737 platform is currently under development to capture near-term opportunities in foreign markets. These investments can also be leveraged in the development of other information, communication and battle management applications.

In commercial information and communications-related activities, the Company has decided to proceed with a satellite-based imaging system for agricultural applications. Additionally, the Company is evaluating other commercial systems and anticipates a decision to proceed with a system allowing air travelers real-time access to video and data services.

Major Process Improvements

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

Recent commercial and government developmental programs, such as the 777-300, 757-300, 767-400ER and Joint Strike Fighter, included early commitment of resources for integrated product teams, design interface with customer representatives, use of advanced three-dimensional digital product definition and digital pre-assembly computer applications, and increased use of automated manufacturing processes. Although these measures have required significant current investments, substantial long-term benefits are anticipated from reductions in design changes and rework and improved quality of internally manufactured and supplier parts.

Significant initiatives to improve production systems and processes are underway. Efforts to streamline configuration, ordering and shop floor systems continue. Many of the lean manufacturing concepts are being implemented in the Company's factories. Efforts are underway on part number reduction, reducing cycle time and maximizing the value of airplane change. The initiatives will enhance our ability to insure standardization where it benefits customers, provide "just in time" feature selection, and allow for more predictable, stable and shorter production flows. These initiatives will improve operational efficiencies and provide better customer product selection.

The Company has received support from Baan, a software manufacturer from the Netherlands, associated with enterprise resource planning (ERP) improvement activities. Recent financial results of Baan have indicated significant losses; however, the Company's plans assume that Baan will continue to meet its commitments to support ERP efforts. In the event that Baan is unable to assist the Company with these efforts, the timing and costs to implement ERP and other process improvements could be negatively impacted.

The Military Aircraft and Missiles segment and the Space and Communications segment continue to aggressively pursue important process improvements through integrated product teams that provide cost-effective solutions and maintain technological superiority. Phantom Works, the advanced research and development organization of Boeing, focuses on improving the Company's competitive position through innovative technologies, improved processes and creation of new products.

The Company is continuing to assess potential opportunities for improved use and consolidation of facilities across all parts of the Company and to focus on those capabilities and processes that contribute to our core competencies resulting in a competitive advantage. Future decisions regarding facilities conversions or consolidations will be based on long-term business objectives. Within the Military Aircraft and Missiles and Space and Communications segments, major restructuring actions will be contingent on demonstration of cost savings for U.S. Government programs and the Company.

The Company is pursuing the means to significantly reduce new product development cost and flow time. Initiatives that have come out of this effort include the formation of the Creation Center, which is tied closely with Phantom Works, and other comparable efforts. Another initiative is the migration to platforms and platform teams modeled after premier benchmarked companies. Other initiatives include design tool automation integrated with manufacturing, improved loads models, and decision support methodologies.

The Company is using Enterprise Process Councils as the structure for realizing synergies company-wide. These Councils are made up of the leaders of key processes from each of the operating groups, as well as Phantom Works, and will rapidly share best practices and combine efforts to meet needs across the Company. Enterprise Process Councils have been established for Define, Manufacturing, Quality and Procurement processes.

SHAREHOLDER VALUE AS CORPORATE PERFORMANCE MEASURE

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

In 1999, the Company initiated a Managing for Value program designed to develop a company-wide culture to continuously improve financial performance and growth. Consistent with these objectives, the Company has set performance targets based on economic profit goals. Economic profit, which is calculated by subtracting a capital charge from the Company's net operating profit after taxes, is the metric used to measure overall financial performance. Awards to executives under the Company's Incentive Compensation Plan are based on the achievement of economic profit targets. In January 2000, the Company announced an incentive plan that will provide annual cash rewards to non-union employees upon achieving annual financial performance objectives based on economic profit.

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

In 1998, the Company adopted the expense recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, which principally affects the accounting for performance share awards, the ShareValue Trust plan, and stock options.

Segment Information

Note 24 to the consolidated financial statements

The Company is organized based on the products and services that it offers. Under this organizational structure, the Company operates in the following principal areas: Commercial Airplanes, Military Aircraft and Missiles, Space and Communications, and Customer and Commercial Financing. *Commercial Airplanes* operations principally involve development, production and marketing of commercial jet aircraft and providing related support services, principally to the commercial airline industry worldwide. *Military Aircraft and Missiles* operations principally involve research, development, production, modification and support of the following products and related systems: military aircraft, both land-based and aircraft-carrier-based, including fighter, transport and attack aircraft with wide mission capability, and vertical/short takeoff and landing capability; helicopters and missiles. *Space and Communications* operations principally involve research, development, production, modification and support of the following products and related systems: space systems; missile defense systems; satellite launching vehicles; rocket engines; and information and battle management systems. Although some Military Aircraft and Missiles and Space and Communications products are contracted in the commercial environment, the primary customer is the U.S. Government. The *Customer and Commercial Financing/Other* segment is primarily engaged in the financing of commercial and private aircraft, commercial equipment, and real estate.

The Commercial Airplanes segment is subject to both operational and external business-environment risks. Operational risks that can seriously disrupt the Company's ability to make timely delivery of its commercial jet aircraft and meet its contractual commitments include execution of internal performance plans, product performance risks associated with regulatory certifications of the Company's commercial aircraft by the U.S. Government and foreign governments, other regulatory uncertainties, collective bargaining labor disputes, and performance issues with key suppliers and subcontractors. New aircraft models such as the 717 program face the additional risk of pricing pressures and cost management issues inherent in the design and production of complex products. Financing support may be provided by the Company to airlines, some of which are unable to obtain other financing. While the Company's principal operations are in the United States, Canada and

Australia, some key suppliers and subcontractors are located in Europe and Japan. External business-environment risks include adverse governmental export and import policies, factors that result in significant and prolonged disruption to air travel worldwide, and other factors that affect the economic viability of the commercial airline industry. Examples of factors relating to external business-environment risks include the volatility of aircraft fuel prices, global trade policies, worldwide political stability and economic growth, escalation trends inherent in pricing the Company's aircraft, and a competitive industry structure which results in market pressure to reduce product prices.

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

The launch services market has some degree of uncertainty since global demand is driven in part by launch customers' access to the capital markets. Additionally, some of the Company's competitors for launch services receive direct or indirect government funding.

As of December 31, 1999, the Company's principal collective bargaining agreements were with the International Association of Machinists and Aerospace Workers (IAM) representing 23% of employees (current agreements expiring May 2001, September 2002, and October 2002), the Society of Professional Engineering Employees in Aerospace (SPEEA) representing 11% of employees (currently not under contract), the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) representing 5% of employees (current agreements expiring April 2000, September 2002, and May 2003), and Southern California Professional Engineering Association (SCPEA) representing 2% of employees (current agreement expiring March 2001).

Sales and other operating revenue by geographic area consisted of the following:

| (Dollars in millions) | Year ended December 31, | 1999 | 1998 | 1997 |
|--|-------------------------|----------|----------|----------|
| Asia, other than China | | \$10,776 | \$14,065 | \$11,437 |
| China | | 1,231 | 1,572 | 1,265 |
| Europe | | 9,678 | 8,646 | 7,237 |
| Oceania | | 942 | 844 | 1,078 |
| Africa | | 386 | 702 | 192 |
| Western Hemisphere, other than the United States | | 461 | 701 | 228 |
| | | 23,474 | 26,530 | 21,437 |
| United States | | 34,519 | 29,624 | 24,363 |
| Total sales | | \$57,993 | \$56,154 | \$45,800 |

Military Aircraft and Missiles segment and Space and Communications segment combined sales were approximately 17%, 16% and 19% of total sales in Europe for 1999, 1998 and 1997, respectively. Defense sales were approximately 17%, 19% and 19% of total sales in Asia, excluding China, for the same respective years. Exclusive of these amounts, Military Aircraft and Missiles segment and Space and Communications segment sales were principally to the U.S. Government. Sales to the U.S. Government represented 25%, 26% and 29% of consolidated sales for 1999, 1998 and 1997.

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

Customer and Commercial Financing/Other segment revenues consist principally of interest from financing receivables and lease income from operating lease equipment, and segment earnings additionally reflect depreciation on leased equipment and expenses recorded against the valuation allowance presented in Note 10. No interest expense on debt is included in Customer and Commercial Financing/Other segment earnings.

For internal reporting purposes, the Company records Commercial Airplanes segment revenue for airplanes transferred to other segments, and such transfers may include airplanes accounted for as operating leases that are considered transferred to the Customer and Commercial Financing/Other segment. The revenue for these transfers is eliminated in the 'Accounting differences/eliminations' caption.

The Company records cost of sales for 7-series commercial airplane programs under the program method of accounting described in Note 1. In 1999, the Company changed the internal measurement and segment reporting method for the Commercial Airplanes segment to record cost of sales based on the cost of specific units delivered, and to the extent that inventoriable costs

exceed estimated revenue, a loss is not recognized until delivery is made, which is not in accordance with generally accepted accounting principles. Prior to 1999, the Commercial Airplanes segment cost of sales was determined based on the program method of accounting. The 1998 and 1997 segment results have been changed to conform to this method. The adjustment between the internal measurement method and the program accounting method of recording cost of sales is included in the 'Accounting differences/eliminations' caption of net earnings. This adjustment totaled \$(304), \$514 and \$(248) for 1999, 1998 and 1997, respectively.

The 'Accounting differences/eliminations' caption of net earnings also includes the impact of cost measurement differences between generally accepted accounting principles and federal cost accounting standards. This includes the following: the difference between pension costs recognized under SFAS No. 87, *Employers' Accounting for Pensions*, and under federal cost accounting standards, principally on a funding basis; the differences between retiree health care costs recognized under SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and under federal cost accounting standards, principally on a cash basis; and the differences in timing of cost recognition related to certain activities, such as facilities consolidation, undertaken as a result of mergers and acquisitions, whereby such costs are expensed under generally accepted accounting principles and deferred under federal cost accounting standards. Additionally, the amortization of costs capitalized in accordance with SFAS No. 34, *Capitalization of Interest Cost*, is included in the 'Accounting differences/eliminations' caption.

The costs attributable to share-based plans are not allocated. Other unallocated costs include corporate costs not allocated to the operating segments, including goodwill amortization. Unallocated assets primarily consist of cash and short-term investments, prepaid pension expense, goodwill, deferred tax assets, and capitalized interest. Unallocated liabilities include various accrued employee compensation and benefit liabilities, including accrued retiree health care, taxes payable, and debentures and notes payable. Unallocated capital expenditures and depreciation relate primarily to shared services assets.

In 1998, the Information, Space and Defense Systems Group of the Company was reorganized into two groups: the Military Aircraft and Missile Systems Group and the Space and Communications Group, which have been reporting as separate business segments since 1998. It is not practicable to determine the Military Aircraft and Missiles and the Space and Communications break-out of the Information, Space and Defense Systems segment information for 1997 presented on page 50.

| (Dollars in millions) | Net earnings (loss) | | | Sales and other operating revenues | | |
|---|---------------------|----------|-----------|------------------------------------|----------|----------|
| Year ended December 31, | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Commercial Airplanes | \$2,016 | \$ (266) | \$(1,589) | \$38,409 | \$36,880 | \$27,479 |
| Military Aircraft and Missiles | 1,193 | 1,283 | | 12,220 | 12,990 | |
| Space and Communications | 415 | 248 | | 6,831 | 6,889 | |
| Information, Space and Defense Systems | 1,608 | 1,531 | 1,317 | 19,051 | 19,879 | 18,125 |
| Customer and Commercial Financing/Other | 492 | 367 | 381 | 837 | 730 | 746 |
| Accounting differences/eliminations | (432) | 372 | (177) | (304) | (1,335) | (550) |
| Share-based plans | (209) | (153) | 99 | | | |
| Other unallocated costs | (305) | (284) | (287) | | | |
| Earnings (loss) from operations | 3,170 | 1,567 | (256) | | | |
| Other income, principally interest | 585 | 283 | 428 | | | |
| Interest and debt expense | (431) | (453) | (513) | | | |
| Earnings (loss) before taxes | 3,324 | 1,397 | (341) | | | |
| Income taxes (benefit) | 1,015 | 277 | (163) | | | |
| | \$2,309 | \$1,120 | \$ (178) | \$57,993 | \$56,154 | \$45,800 |

| Year ended December 31, | Research and development | | | Depreciation and amortization | | |
|---|--------------------------|---------|---------|-------------------------------|---------|---------|
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Commercial Airplanes | \$ 585 | \$1,021 | \$1,208 | \$ 595 | \$ 628 | \$ 570 |
| Military Aircraft and Missiles | 264 | 304 | | 201 | 208 | |
| Space and Communications | 492 | 570 | | 168 | 142 | |
| Information, Space and Defense Systems | 756 | 874 | 716 | 369 | 350 | 365 |
| Customer and Commercial Financing/Other | | | | 163 | 135 | 91 |
| Unallocated | | | | 518 | 509 | 432 |
| | \$1,341 | \$1,895 | \$1,924 | \$1,645 | \$1,622 | \$1,458 |

| | Assets at December 31 | | | Liabilities at December 31 | | |
|---|-----------------------|----------|----------|----------------------------|----------|----------|
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Commercial Airplanes | \$ 8,075 | \$11,003 | \$11,000 | \$ 6,135 | \$ 6,907 | \$ 7,617 |
| Military Aircraft and Missiles | 3,206 | 3,560 | | 1,080 | 743 | |
| Space and Communications | 4,245 | 3,149 | | 1,350 | 1,452 | |
| Information, Space and Defense Systems | 7,451 | 6,709 | 6,597 | 2,430 | 2,195 | 2,379 |
| Customer and Commercial Financing/Other | 6,004 | 5,751 | 4,716 | 228 | 301 | 396 |
| Unallocated | 14,617 | 13,561 | 15,980 | 15,892 | 15,305 | 14,948 |
| | \$36,147 | \$37,024 | \$38,293 | \$24,685 | \$24,708 | \$25,340 |

| Year ended December 31, | Capital expenditures, net | | | Contractual backlog at December 31 (unaudited) | | |
|---|---------------------------|---------|---------|--|-----------|-----------|
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Commercial Airplanes | \$ 307 | \$ 754 | \$ 531 | \$72,972 | \$ 86,057 | \$ 93,788 |
| Military Aircraft and Missiles | 215 | 213 | | 15,691 | 17,007 | |
| Space and Communications | 585 | 339 | | 10,585 | 9,832 | |
| Information, Space and Defense Systems | 800 | 552 | 463 | 26,276 | 26,839 | 27,852 |
| Customer and Commercial Financing/Other | 1 | 1 | 1 | | | |
| Unallocated | 128 | 358 | 396 | | | |
| | \$1,236 | \$1,665 | \$1,391 | \$99,248 | \$112,896 | \$121,640 |

Consolidated Statements of Operations

(Dollars in millions except per share data)

| Year ended December 31, | 1999 | 1998 | 1997 |
|---|-----------------|-----------------|-----------------|
| Sales and other operating revenues | \$57,993 | \$56,154 | \$45,800 |
| Cost of products and services | 51,320 | 50,492 | 42,001 |
| | 6,673 | 5,662 | 3,799 |
| Equity in income (loss) from joint ventures | 4 | (67) | (43) |
| General and administrative expense | 2,044 | 1,993 | 2,187 |
| Research and development expense | 1,341 | 1,895 | 1,924 |
| Gain on dispositions, net | 87 | 13 | |
| Share-based plans expense | 209 | 153 | (99) |
| Operating earnings (loss) | 3,170 | 1,567 | (256) |
| Other income, principally interest | 585 | 283 | 428 |
| Interest and debt expense | (431) | (453) | (513) |
| Earnings (loss) before income taxes | 3,324 | 1,397 | (341) |
| Income taxes (benefit) | 1,015 | 277 | (163) |
| Net earnings (loss) | \$ 2,309 | \$ 1,120 | \$ (178) |
| | | | |
| Basic earnings (loss) per share | \$ 2.52 | \$ 1.16 | \$ (.18) |
| Diluted earnings (loss) per share | \$ 2.49 | \$ 1.15 | \$ (.18) |
| Cash dividends per share | \$.56 | \$.56 | \$.56 |

See notes to consolidated financial statements.

Consolidated Statements of Financial Position

(Dollars in millions except per share data)

| December 31, | 1999 | 1998 |
|---|-----------------|-----------------|
| Assets | | |
| Cash and cash equivalents | \$ 3,354 | \$ 2,183 |
| Short-term investments | 100 | 279 |
| Accounts receivable | 3,453 | 3,288 |
| Current portion of customer and commercial financing | 799 | 781 |
| Deferred income taxes | 1,467 | 1,495 |
| Inventories, net of advances and progress billings | 6,539 | 8,584 |
| Total current assets | 15,712 | 16,610 |
| Customer and commercial financing | 5,205 | 4,930 |
| Property, plant and equipment, net | 8,245 | 8,589 |
| Deferred income taxes | | 411 |
| Goodwill | 2,233 | 2,312 |
| Prepaid pension expense | 3,845 | 3,513 |
| Other assets | 907 | 659 |
| | \$36,147 | \$37,024 |
| Liabilities and Shareholders' Equity | | |
| Accounts payable and other liabilities | \$11,269 | \$11,085 |
| Advances in excess of related costs | 1,215 | 1,251 |
| Income taxes payable | 420 | 569 |
| Short-term debt and current portion of long-term debt | 752 | 869 |
| Total current liabilities | 13,656 | 13,774 |
| Deferred income taxes | 172 | |
| Accrued retiree health care | 4,877 | 4,831 |
| Long-term debt | 5,980 | 6,103 |
| Shareholders' equity: | | |
| Common shares, par value \$5.00 – 1,200,000,000 shares authorized; | | |
| Shares issued – 1,011,870,159 and 1,011,870,159 | 5,059 | 5,059 |
| Additional paid-in capital | 1,684 | 1,147 |
| Treasury shares, at cost – 102,356,897 and 35,845,731 | (4,161) | (1,321) |
| Retained earnings | 10,487 | 8,706 |
| Accumulated other comprehensive income | 6 | (23) |
| Unearned compensation | (12) | (17) |
| ShareValue Trust shares – 38,696,289 and 38,166,601 | (1,601) | (1,235) |
| Total shareholders' equity | 11,462 | 12,316 |
| | \$36,147 | \$37,024 |

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in millions)

| Year ended December 31, | 1999 | 1998 | 1997 |
|--|-----------------|-----------------|-----------------|
| Cash flows – operating activities: | | | |
| Net earnings (loss) | \$ 2,309 | \$ 1,120 | \$ (178) |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | | |
| Share-based plans | 209 | 153 | (99) |
| Depreciation | 1,538 | 1,517 | 1,354 |
| Amortization of goodwill and intangibles | 107 | 105 | 104 |
| Customer and commercial financing valuation provision | 72 | 61 | 64 |
| Gain on dispositions, net | (87) | (13) | |
| Changes in assets and liabilities – | | | |
| Short-term investments | 179 | 450 | 154 |
| Accounts receivable | (225) | (167) | (240) |
| Inventories, net of advances and progress billings | 2,030 | 652 | (96) |
| Accounts payable and other liabilities | 217 | (840) | 1,908 |
| Advances in excess of related costs | (36) | (324) | (139) |
| Income taxes payable and deferred | 462 | 145 | (451) |
| Other | (597) | (479) | (272) |
| Accrued retiree health care | 46 | 35 | (4) |
| Net cash provided by operating activities | 6,224 | 2,415 | 2,105 |
| Cash flows – investing activities: | | | |
| Customer and commercial financing – additions | (2,398) | (2,603) | (1,889) |
| Customer and commercial financing – reductions | 1,842 | 1,357 | 1,025 |
| Property, plant and equipment, net additions | (1,236) | (1,665) | (1,391) |
| Proceeds from dispositions | 359 | 37 | |
| Net cash used by investing activities | (1,433) | (2,874) | (2,255) |
| Cash flows – financing activities: | | | |
| New borrowings | 437 | 811 | 232 |
| Debt repayments | (676) | (693) | (867) |
| Common shares purchased | (2,937) | (1,397) | (141) |
| Common shares issued | | | 268 |
| Stock options exercised, other | 93 | 65 | 166 |
| Dividends paid | (537) | (564) | (557) |
| Net cash used by financing activities | (3,620) | (1,778) | (899) |
| Net increase (decrease) in cash and cash equivalents | 1,171 | (2,237) | (1,049) |
| Cash and cash equivalents at beginning of year | 2,183 | 4,420 | 5,469 |
| Cash and cash equivalents at end of year | \$ 3,354 | \$ 2,183 | \$ 4,420 |

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

| <i>(Dollars in millions / Shares in thousands)</i> | Common Stock | Additional Paid-In Capital |
|--|--------------|----------------------------------|
| | Shares | Amount |
| Balance December 31, 1996 | 993,348 | \$ 4,967 |
| Shares issued | 4,550 | 23 |
| Shares issued for incentive stock plans | 2,132 | 10 |
| Treasury shares acquired | | |
| Treasury shares issued for incentive stock plans, net | | (20) |
| Tax benefit related to incentive stock plans | | 41 |
| Stock appreciation rights expired or surrendered | | 6 |
| ShareValue Trust market value adjustment | | (102) |
| Shares transferred from ShareValue Trust | | |
| Shares acquired from dividend reinvestment | | |
| Accrued distributable appreciation | | |
| New issuances – unearned compensation | | |
| Amortization and forfeitures – unearned compensation | | |
| Net loss | | |
| Cash dividends declared | | |
| Balance December 31, 1997 | 1,000,030 | \$ 5,000 |
| Shares issued for ShareValue Trust | 11,253 | 56 |
| Shares issued for incentive stock plans | 587 | 3 |
| Share-based compensation | | 153 |
| Treasury shares acquired | | |
| Treasury shares issued for incentive stock plans, net | | (43) |
| Tax benefit related to incentive stock plans | | 18 |
| Stock appreciation rights expired or surrendered | | 5 |
| ShareValue Trust market value adjustment | | (570) |
| Shares acquired from dividend reinvestment | | |
| Amortization and forfeitures – unearned compensation | | |
| Net earnings | | |
| Cash dividends declared | | |
| Minimum pension liability adjustment, net of tax of \$14 | | |
| Balance December 31, 1998 | 1,011,870 | \$ 5,059 |
| Share-based compensation | | 209 |
| Tax benefit related to incentive stock plans | | 9 |
| ShareValue Trust market value adjustment | | 366 |
| Treasury shares acquired | | |
| Treasury shares issued for incentive stock plans, net | | (47) |
| Shares acquired from dividend reinvestment | | |
| Amortization and forfeitures – unearned compensation | | |
| Net earnings | | |
| Cash dividends declared | | |
| Minimum pension liability adjustment, net of tax of \$(14) | | |
| Currency translation adjustment | | |
| Balance December 31, 1999 | 1,011,870 | \$ 5,059 |
| | | \$ 1,684 |

See notes to consolidated financial statements.

| Treasury Stock | | Share Value Trust | | Unearned Compensation | Accumulated Other Comprehensive Income | Retained Earnings | Comprehensive Income |
|----------------|------------|-------------------|------------|-----------------------|--|-------------------|----------------------|
| Shares | Amount | Shares | Amount | | | | |
| 30 | \$ (1) | 26,120 | \$ (1,258) | \$ (22) | \$ - | \$ 8,896 | |
| 2,710 | (141) | | | | | | |
| (2,580) | 133 | | | | | | |
| | | | | 102 | | | |
| 5 | (5) | | | | | | |
| | 270 | | | | | | |
| | | | (99) | | | | |
| | | | | (29) | | | |
| | | | | 31 | | | |
| | | | | | (178) | | \$ (178) |
| | | | | | (571) | | |
| 165 | \$ (9) | 26,385 | \$ (1,255) | \$ (20) | \$ - | \$ 8,147 | \$ (178) |
| | | | | | | | |
| | | 11,253 | (550) | | | | |
| 37,473 | (1,397) | | | | | | |
| (1,792) | 85 | | | | | | |
| | | | | 570 | | | |
| | | 529 | | | | | |
| | | | | 3 | | | |
| | | | | | 1,120 | | \$ 1,120 |
| | | | | | (561) | | |
| | | | | | (23) | | (23) |
| 35,846 | \$ (1,321) | 38,167 | \$ (1,235) | \$ (17) | \$ (23) | \$ 8,706 | \$ 1,097 |
| | | | | | | | |
| | | | (366) | | | | |
| 68,923 | (2,937) | | | | | | |
| (2,412) | 97 | | | | | | |
| | | 529 | | | | | |
| | | | | 5 | | | |
| | | | | | 2,309 | | \$ 2,309 |
| | | | | | (528) | | |
| | | | | | 22 | | 22 |
| | | | | | 7 | | 7 |
| 102,357 | \$ (4,161) | 38,696 | \$ (1,601) | \$ (12) | \$ 6 | \$ 10,487 | \$ 2,338 |

Notes to Consolidated Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Dollars in millions except per share data)

NOTE 1

Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries. Investments in joint ventures in which the Company does not have control, but has the ability to exercise significant influence over the operating and financial policies, are accounted for under the equity method. Accordingly, the Company's share of net earnings and losses from these ventures is included in the consolidated statements of operations. Intercompany profits, transactions and balances have been eliminated in consolidation. Certain reclassifications have been made to prior periods to conform with current reporting, including the reclassification of the McDonnell Douglas products valuation adjustment, discussed in Note 7, from special charges to cost of products and services.

Use of estimates

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

Sales and other operating revenues

Sales under fixed-price-type contracts are generally recognized as deliveries are made or at the completion of contractual billing milestones. For certain fixed-price contracts that require substantial performance over an extended period before deliveries begin, sales are recorded based upon attainment of scheduled performance milestones. Sales under cost-reimbursement-type contracts are recorded as costs are incurred. Certain U.S. Government contracts contain profit incentives based upon performance relative to predetermined targets. Incentives based on cost performance are recorded currently, and other incentives and fee awards are recorded when the amounts can be reasonably estimated. Commercial aircraft sales are recorded as deliveries are made unless transfer of risk and rewards of ownership is not sufficient. Income associated with customer financing activities is included in sales and other operating revenues.

Contract and program accounting

In the Military Aircraft and Missiles segment and Space and Communications segment, operations principally consist of performing work under contract, predominantly for the U.S. Government and foreign governments. Cost of sales for fixed-price-type contracts is determined based on the estimated average total contract cost and revenue. Cost of sales under cost-reimbursement-type contracts are recorded as costs are incurred.

Commercial aircraft programs are planned, committed and facilitated based on long-term delivery forecasts, normally for quantities in excess of contractually firm orders. Cost of sales for the 717, 737, 747, 757, 767 and 777 commercial aircraft programs is determined under the program method of accounting based on estimated average total cost and revenue for the current program quantity. The initial program quantity for the 717 program has been established at 200 units. The program method of accounting effectively amortizes or averages tooling and special equipment costs, as well as unit production costs, over the program quantity. Because of the higher unit production costs experienced at the beginning of a new program and the substantial investment required for initial tooling and special equipment, new commercial jet aircraft programs normally have lower operating profit margins than established programs. The estimated program average costs and revenues are reviewed and reassessed quarterly, and changes in estimates are recognized over current and future deliveries constituting the program quantity. Cost of sales for the MD-80, MD-90 and MD-11 aircraft programs is determined on a specific-unit cost method.

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

Inventories

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

Share-based plans

In 1998, the Company adopted the expense recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*. The Company values stock options issued based upon an option-pricing model and recognizes this value as an expense over the period in which the options vest. Potential distributions from the ShareValue Trust have been valued based upon an option-pricing model, with the related expense recognized over the life of the trust. Share-based expense associated with Performance Shares is determined based on the market value of the Company's stock at the time of the award applied to the maximum number of shares contingently issuable based on stock price and is amortized over the life of the award. Performance Shares were first issued in 1998. Prior to 1998, the Company recognized no expense for stock options, and ShareValue Trust expense was determined based on the change in the distributable market value of the trust. Share-based plans expenses for stock options, ShareValue Trust, Performance Shares and other share-based awards are offset by a credit to additional paid-in capital.

Interest expense

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

Income taxes

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

Postretirement benefits

The Company's funding policy for pension plans is to contribute, at a minimum, the statutorily required amount to an irrevocable trust. Benefits under the pension plans are generally based on age at retirement, the employee's annual earnings indexed at the U.S. Treasury 30-year bond rate, and years of service. The actuarial cost method used in determining the net periodic pension cost is the projected unit credit method.

Cash and cash equivalents

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

Short-term investments

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

Property, plant and equipment

Property, plant and equipment are recorded at cost, including applicable construction-period interest, and depreciated principally over the following estimated useful lives: new buildings and land improvements, from 20 to 45 years; and machinery and equipment, from 3 to 13 years. The principal methods of depreciation are as follows: buildings and land improvements, 150% declining balance; and machinery and equipment, sum-of-the-years' digits. The Company periodically evaluates the appropriateness of remaining depreciable lives assigned to long-lived assets subject to management's plan for use and disposition.

Long-lived assets deemed available for sale are stated at the lower of cost or fair value less the cost to sell. Long-lived assets held for use are subject to an impairment adjustment down to fair value less the cost to sell if the carrying value is no longer recoverable based upon the sum of undiscounted future cash flows.

Goodwill

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

NOTE 2

Revenues and Costs Attributable to Customer and Commercial Financing

The years ended 1999, 1998 and 1997 include sales and other operating revenues of \$752, \$646, and \$670 and cost of products and services of \$218, \$241, and \$295 attributable to customer and commercial financing. Customer and commercial financing primarily relates to the financing of commercial and private aircraft and commercial equipment. Revenues include interest on notes receivable and sales-type leases and lease income from operating leases. Costs of products and services includes depreciation on leased aircraft and equipment and valuation adjustments of customer and commercial financing assets.

NOTE 3

Gain on Dispositions, Net

Gains and losses resulting from the sale of businesses, along with gains and losses resulting from the disposition of real property, are reported on a net basis in the caption "Gain on dispositions, net" on the Consolidated Statements of Operations. For 1999, net gains of \$118 were recorded for sales of businesses, and net losses of \$31 were recorded for the disposition of real property. For 1998, net gains of \$13 were recorded on the disposition of real property.

NOTE 4

Mergers and Acquisitions

Merger with McDonnell Douglas Corporation

On August 1, 1997, McDonnell Douglas Corporation merged with the Company through a stock-for-stock exchange in which 1.3 shares of Company stock were issued for each share of McDonnell Douglas stock outstanding. The Company issued 277.3 million shares in connection with the merger. The merger is accounted for as a pooling of interests. Accordingly, except for adjustments to reflect conformed accounting policies, the historical results of operations of the two companies have been combined, and no acquisition revaluation or goodwill was recorded.

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

Proposed acquisition of Hughes space and communications business

On January 13, 2000, the Company announced an agreement to acquire the Hughes space and communications business and related operations for \$3.75 billion. The transaction is subject to regulatory and government reviews and is expected to be finalized by the end of the second quarter of 2000. Hughes is a technological leader in space-based communications, reconnaissance, surveillance and imaging systems. It is also a leading manufacturer of commercial satellites. Under the definitive agreement, Boeing also will acquire Hughes Electron Dynamics, a supplier of electronic components for satellites, and Spectrolab, a provider of solar cells and panels for satellites.

NOTE 5

Equity in Income (Loss) from Joint Ventures

Equity in income (loss) from joint ventures in the Consolidated Statements of Operations included recognized losses of \$65, \$127 and \$102 for the years ended December 31, 1999, 1998 and 1997, respectively, representing the Company's share of losses from joint venture arrangements in the developmental stages accounted for under the equity method. The Company's principal joint venture arrangement in the developmental stages is a 40% partnership in Sea Launch, a commercial satellite launch venture with Norwegian, Russian and Ukrainian partners. The Sea Launch program entered the production phase with its first revenue-producing launch in the fourth quarter of 1999.

Additionally, the Company recognized income of \$69, \$60, and \$59 for the years ended December 31, 1999, 1998 and 1997, respectively, attributable to non-developmental joint venture arrangements. The Company's 50% partnership with Lockheed Martin in United Space Alliance is the principal non-developmental joint venture arrangement. United Space Alliance is responsible for all ground processing of the Space Shuttle fleet and for space-related operations with the U.S. Air Force.

As of December 31, 1999 and 1998, other assets included \$164 and \$117 attributable to investments in joint ventures.

NOTE 6

Earnings per Share

The weighted average number of shares outstanding (in millions) used to compute earnings per share for the years ended December 31, 1999, 1998 and 1997 were as follows:

| | 1999 | 1998 | 1997 |
|----------------|-------|-------|-------|
| Basic shares | 917.1 | 966.9 | 970.1 |
| Diluted shares | 925.9 | 976.7 | 970.1 |

Basic earnings per share are calculated based on the weighted average number of shares outstanding, excluding the outstanding shares held by the ShareValue Trust. Diluted earnings per share are calculated based on that same number of shares plus additional dilutive shares representing stock distributable under share-based plans computed using the treasury stock method. Because 1997 results reflected a net loss from continuing operations, both basic and diluted earnings per share were calculated based on the same weighted average number of shares for that year.

NOTE 7

McDonnell Douglas Products Valuation Adjustment

In the fourth quarter of 1997, the Company completed an assessment of the financial impact of its post-merger strategy decisions related to its McDonnell Douglas Corporation commercial product lines and recorded provisions aggregating \$1,400 relative to these decisions. These provisions were recorded against cost of products and services, of which \$906 constituted an inventory writedown. The principal airplane programs impacted by this valuation adjustment are the MD-11 trijet, the MD-80, MD-90 and 717 twinjets, and the McDonnell Douglas light commercial helicopter programs. Under the original product strategy decision, the passenger version of the MD-11 was to be terminated in late 2000, the final MD-80 would be delivered in late 1999, and the final MD-90 would be delivered in early 2000. Under the plans ultimately implemented, final delivery of the MD-80 occurred in 1999, and scheduled final deliveries are in first quarter 2000 for the MD-90 and in first quarter 2001 for the MD-11.

The provisions attributable to the commercial airplane programs discussed above totaled \$1,075, of which \$806 related to inventory writedowns, \$209 related to contractual supplier termination liabilities, and \$60 related to employee severance liabilities. The provisions included an inventory writedown of \$100 attributable to light commercial helicopter programs, which were sold in 1998. The sale resulted in no additional gain or loss.

The provisions also included a \$55 increase in the valuation reserve of finance receivables and a \$170 increase in liabilities attributable to off-balance-sheet financing commitments. This portion of the provisions resulted from changes in collateral value underlying the receivables and commitments, which deteriorated for the MD-80, MD-90 and MD-11 primarily because of the product terminations discussed above.

Contractual termination liabilities as of December 31, 1999 and 1998, were as follows:

| | 1999 | 1998 |
|---------------------|-------|-------|
| Beginning balance | \$178 | \$209 |
| Payments | (24) | (6) |
| Changes in estimate | (7) | (25) |
| Ending balance | \$147 | \$178 |

Employee severance liabilities as of December 31, 1999 and 1998, were as follows:

| | 1999 | 1998 |
|---------------------|-------|-------|
| Beginning balance | \$ 39 | \$ 60 |
| Payments | (12) | |
| Changes in estimate | (7) | (21) |
| Ending balance | \$ 20 | \$ 39 |

Changes in supplier termination liability estimates result from continued negotiations with suppliers, which are expected to be completed in 2002. Changes in employee severance liabilities have resulted principally from increased employment requirements located in other segments of the Company in similar geographic areas.

NOTE 8

Accounts Receivable

Accounts receivable at December 31 consisted of the following:

| | 1999 | 1998 |
|---------------------------|---------|---------|
| U.S. Government contracts | \$1,970 | \$2,058 |
| Other | 1,483 | 1,230 |
| | \$3,453 | \$3,288 |

Accounts receivable included the following as of December 31, 1999 and 1998, respectively: amounts not currently billable of \$401 and \$381 relating primarily to sales values recorded upon attainment of performance milestones that differ from contractual billing milestones and withhold on U.S. Government contracts (\$214 and \$109 not expected to be collected within one year); \$51 and \$93 relating to claims and other amounts on U.S. Government contracts subject to future settlement (\$32 and \$66 not expected to be collected within one year); and \$46 and \$48 of other receivables not expected to be collected within one year.

NOTE 9

Inventory

Inventories at December 31 consisted of the following:

| | 1999 | 1998 |
|--|-----------|-----------|
| Commercial aircraft programs and long-term contracts in progress | \$ 19,537 | \$ 24,812 |
| Commercial spare parts, general stock materials and other | 2,042 | 2,162 |
| | 21,579 | 26,974 |
| Less advances and progress billings | (15,040) | (18,625) |
| | \$ 6,539 | \$ 8,349 |

As of December 31, 1999, there were no significant excess deferred production costs (inventory production costs incurred on in-process and delivered units in excess of the estimated average cost of such units determined as described in Note 1) or unamortized tooling costs not recoverable from existing firm orders for commercial programs other than the 777 and the Next-Generation 737 programs.

Inventory costs at December 31, 1999, included unamortized tooling of \$1,444 and \$590 relating to the 777 and Next-Generation 737 programs, respectively, and excess deferred production costs of \$1,507 and \$646 relating to the 777 and Next-Generation 737 programs. Inventory costs at December 31, 1998, included unamortized tooling of \$2,022 and \$760 relating to the 777 and Next-Generation 737 programs and excess deferred production costs of \$1,654 and \$329 relating to the 777 and Next-Generation 737 programs. Firm backlog for both the 777 and Next-Generation 737 programs is sufficient to recover all significant amounts of excess deferred production costs as of December 31, 1999; however, such deferred costs are recognized over the current program accounting quantity in effect at the date of reporting. Due to the charges recorded principally in 1997, there are no excess deferred production costs or unamortized tooling for the 717 program.

Interest capitalized as construction-period tooling costs amounted to \$17, \$20 and \$33 in 1999, 1998 and 1997, respectively.

As of December 31, 1999 and 1998, inventory balances included \$231 subject to claims or other uncertainties primarily relating to the A-12 program. See Note 23.

The estimates underlying the average costs of deliveries reflected in the inventory valuations may differ materially from amounts eventually realized for the reasons outlined in Note 24.

NOTE 10

Customer and Commercial Financing

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

| | 1999 | 1998 |
|--|---------|---------|
| Aircraft financing | | |
| Notes receivable | \$ 781 | \$ 859 |
| Investment in sales-type/ financing leases | 1,497 | 1,325 |
| Operating lease equipment, at cost, less accumulated depreciation of \$304 and \$195 | 2,357 | 2,201 |
| Commercial equipment financing | | |
| Notes receivable | 730 | 534 |
| Investment in sales-type/ financing leases | 506 | 548 |
| Operating lease equipment, at cost, less accumulated depreciation of \$92 and \$129 | 408 | 510 |
| Less valuation allowance | (275) | (266) |
| | \$6,004 | \$5,711 |

Customer and commercial financing assets that are leased by the Company under capital leases and have been subleased to others totaled \$502 and \$333 as of December 31, 1999 and 1998. Commercial equipment financing under operating lease consists principally of real property, highway vehicles, machine tools and production equipment.

Scheduled payments on customer and commercial financing are as follows:

| Year | Principal Payments on Notes Receivable | Sales-type/ Financing Lease Payments Receivable | Operating Lease Payments Receivable |
|-------------|--|---|-------------------------------------|
| 2000 | \$230 | \$587 | \$294 |
| 2001 | 175 | 416 | 267 |
| 2002 | 108 | 212 | 249 |
| 2003 | 102 | 195 | 236 |
| 2004 | 152 | 175 | 216 |
| Beyond 2004 | 744 | 797 | 2,045 |

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

| | 1999 | 1998 |
|---|---------|---------|
| Minimum lease payments receivable | \$2,382 | \$2,362 |
| Estimated residual value of leased assets | 479 | 438 |
| Unearned income | (858) | (927) |
| | \$2,003 | \$1,873 |

The Company has entered into interest rate swaps with third-party investors whereby the interest rate terms differ from the terms in the original receivable. These interest rate swaps related to \$58 of customer financing receivables as of December 31, 1999. These swaps have a receive rate that is floating and a pay rate that is fixed. Interest rate swaps on financing receivables are settled on the same dates interest is due on the underlying receivables.

Interest rates on fixed-rate notes ranged from 6.41% to 15.00%, and effective interest rates on variable-rate notes ranged from 0.15% to 5.50% above the London Interbank Offered Rate (LIBOR).

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

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

NOTE 11

Property, Plant and Equipment

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

| | 1999 | 1998 |
|-------------------------------|-----------|-----------|
| Land | \$ 430 | \$ 499 |
| Buildings | 8,148 | 8,244 |
| Machinery and equipment | 10,411 | 10,521 |
| Construction in progress | 1,130 | 977 |
| | \$ 20,119 | \$ 20,241 |
| Less accumulated depreciation | (11,874) | (11,652) |
| | \$ 8,245 | \$ 8,589 |

Balances are net of impairment asset valuation reserve adjustments for real property available for sale of \$76 and \$64 for December 31, 1999 and 1998.

Depreciation expense was \$1,330, \$1,386 and \$1,266 for 1999, 1998 and 1997, respectively. Interest capitalized as construction-period property, plant and equipment costs amounted to \$64, \$45 and \$28 in 1999, 1998 and 1997, respectively.

Rental expense for leased properties was \$320, \$349 and \$308 for 1999, 1998 and 1997, respectively. These expenses, substantially all minimum rentals, are net of sublease income. Minimum rental payments under operating leases with initial or remaining terms of one year or more aggregated \$704 at December 31, 1999.

Payments, net of sublease amounts, due during the next five years are as follows:

| 2000 | 2001 | 2002 | 2003 | 2004 |
|-------|-------|------|------|------|
| \$167 | \$120 | \$92 | \$77 | \$67 |

NOTE 12

Goodwill

Goodwill at December 31 consisted of the following:

| | 1999 | 1998 |
|------------------------------|---------|---------|
| Goodwill | \$2,490 | \$2,486 |
| Less cumulative amortization | (257) | (174) |
| | \$2,233 | \$2,312 |

NOTE 13

Income Taxes

The provision for taxes on income consisted of the following:

| Year ended December 31, | 1999 | 1998 | 1997 |
|---|----------------|---------------|----------------|
| U.S. Federal | | | |
| Taxes paid or currently payable | \$ 368 | \$ 370 | \$ 103 |
| Change in deferred taxes | 561 | (124) | (253) |
| | 929 | 246 | (150) |
| State | | | |
| Taxes paid or currently payable | 36 | 33 | 9 |
| Change in deferred taxes | 50 | (2) | (22) |
| | 86 | 31 | (13) |
| Income tax provision (benefit) | \$1,015 | \$ 277 | \$(163) |

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

| | 1999 | 1998 | 1997 |
|---|---------|--------|---------|
| U.S. federal statutory tax | \$1,163 | \$ 489 | \$(119) |
| Foreign Sales Corporation tax benefit | (230) | (130) | (79) |
| Research benefit | (24) | (70) | (8) |
| Prior years' research benefit settlement | | (57) | |
| Prior years' tax adjustment | | (8) | (23) |
| Nondeductibility of goodwill and merger costs | 31 | 31 | 71 |
| State income tax provision, net of effect on U.S. federal tax | 86 | 31 | (9) |
| Other provision adjustments | (11) | (9) | 4 |
| Income tax provision (benefit) | \$1,015 | \$ 277 | \$(163) |

The deferred tax assets, net of deferred tax liabilities, resulted from temporary tax differences associated with the following:

| Year ended December 31, | 1999 | 1998 | 1997 |
|--|----------|----------|----------|
| Inventory and long-term contract methods | | | |
| of income recognition | \$ 634 | \$ 800 | \$ 1,186 |
| Pension benefit accruals | (1,215) | (1,179) | (1,152) |
| Retiree health care accruals | 1,821 | 1,771 | 1,806 |
| Other employee benefits accruals | 565 | 415 | 318 |
| Customer and commercial financing | (510) | 99 | (378) |
| Net deferred tax assets | \$ 1,295 | \$ 1,906 | \$ 1,780 |

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

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

Income taxes have been settled with the Internal Revenue Service (IRS) for all years through 1978, and IRS examinations have been completed through 1987. In connection with these examinations, the Company disagrees with IRS proposed adjustments, and the years

1979 through 1987 are in litigation. The Company has also filed refund claims for additional research and development tax credits, primarily in relation to its fixed-price government development programs.

Successful resolutions will result in increased income to the Company.

In the second quarter of 1999, the IRS and the Company reached a partial agreement on an IRS examination of the years 1988 through 1991. As a result of the partial agreement between the Company and the IRS for these years, refunds and payments of tax and interest were due to or payable by the Company. Second quarter 1999 net earnings included net interest income of \$289 associated with this partial agreement.

In December 1996, The Boeing Company filed suit in the U.S. District Court for the Western District of Washington for the refund of over \$400 in federal income taxes and related interest. The suit challenged the IRS method of allocating research and development costs for the purpose of determining tax incentive benefits on export sales through the Company's Domestic International Sales Corporation (DISC) and its Foreign Sales Corporation (FSC) for the years 1979 through 1987. In September 1998, the District Court granted the Company's motion for summary judgment. The U.S. Department of Justice has appealed this decision. If the Company were to prevail, the refund would include interest computed to the payment date. The issue could affect tax computations for subsequent years; however, the financial impact would depend on the final resolution of audits for these years.

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

Income tax payments, net of tax refunds, were \$575, \$85 and \$219 in 1999, 1998 and 1997, respectively.

NOTE 14

Accounts Payable and Other Liabilities

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

| | 1999 | 1998 |
|---|----------|----------|
| Accounts payable | \$ 4,909 | \$ 5,263 |
| Accrued compensation and employee benefit costs | 2,421 | 2,326 |
| Lease and other deposits | 647 | 539 |
| Other | 3,292 | 2,840 |
| | \$11,269 | \$10,968 |

NOTE 15**Debt**

Debt at December 31 consisted of the following:

| | 1999 | 1998 |
|--|----------------|----------------|
| Unsecured debentures and notes: | | |
| 8 7/8% due Sep. 15, 1999 | \$ - | \$ 304 |
| 8.25% due Jul. 1, 2000 | 200 | 200 |
| 8 3/8% due Feb. 15, 2001 | 177 | 180 |
| 7.565% due Mar. 30, 2002 | 52 | 54 |
| 9.25% due Apr. 1, 2002 | 120 | 120 |
| 6 3/4% due Sep. 15, 2002 | 298 | 298 |
| 6.35% due Jun. 15, 2003 | 300 | 299 |
| 7 7/8% due Feb. 15, 2005 | 207 | 208 |
| 6 5/8% due Jun. 1, 2005 | 293 | 292 |
| 6.875% due Nov. 1, 2006 | 248 | 248 |
| 8 1/10% due Nov. 15, 2006 | 175 | 175 |
| 9.75% due Apr. 1, 2012 | 348 | 348 |
| 8 3/4% due Aug. 15, 2021 | 398 | 398 |
| 7.95% due Aug. 15, 2024 | 300 | 300 |
| 7 1/4% due Jun. 15, 2025 | 247 | 247 |
| 8 3/4% due Sep. 15, 2031 | 248 | 248 |
| 8 5/8% due Nov. 15, 2031 | 173 | 173 |
| 6 5/8% due Feb. 15, 2038 | 300 | 300 |
| 7.50% due Aug. 15, 2042 | 100 | 100 |
| 7 7/8% due Apr. 15, 2043 | 173 | 173 |
| 6 7/8% due Oct. 15, 2043 | 125 | 125 |
| Senior debt securities | | |
| 6.0% – 9.4%, due through 2011 | 30 | 55 |
| Senior medium-term notes, | | |
| 5.6% – 10.0%, due through 2017 | 1,426 | 1,320 |
| Subordinated medium-term notes, | | |
| 5.5% – 8.3%, due through 2004 | 45 | 55 |
| Capital lease obligations, | | |
| due through 2008 | 386 | 433 |
| Other notes | | |
| | 363 | 319 |
| | \$6,732 | \$6,972 |

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

| 2000 | 2001 | 2002 | 2003 | 2004 |
|-------|-------|-------|-------|-------|
| \$480 | \$490 | \$690 | \$535 | \$197 |

The Company has \$2,640 currently available under credit line agreements, which includes \$240 available but unused under a credit line agreement between Boeing Capital Corporation (BCC), a corporation wholly owned by the Company, and a group of commercial banks. The Company has complied with the restrictive covenants contained in various debt agreements. Additionally, BCC has filed shelf registrations with the Securities and Exchange Commission totaling \$1,200, on which \$1,008 has been drawn. BCC has additionally filed a Form S-3 Registration Statement for a public shelf registration of \$2,500 in debt securities.

At December 31, 1999, and 1998, borrowings under commercial paper and uncommitted short-term bank facilities totaling \$228 and \$172 were supported by available unused commitments under the revolving credit agreement. Total consolidated debt attributable to BCC amounted to \$2,058 and \$1,971 as of December 31, 1999 and 1998.

The \$100 notes due August 15, 2042, with a stated rate of 7.50% were issued to a private investor in connection with an interest rate swap arrangement that resulted in an effective synthetic rate of 7.865%. The swap arrangement results in semi-annual interest rate payments at LIBOR, and is scheduled to settle when the underlying note matures. Additionally, BCC has interest rate swaps totaling \$323 relating to capital lease obligations and \$80 relating to medium-term notes. The swaps attributable to capital lease obligations have a receive rate that is floating based on LIBOR, and a pay rate that is fixed. Of the swaps attributable to medium-term notes, \$50 have a receive rate that is fixed, and a pay rate that is floating based on LIBOR; and \$30 have a receive rate that is floating based on LIBOR, and a pay rate that is fixed. Interest rate swaps on these capital lease obligations and medium-term notes are settled on the same dates interest is due on the underlying obligations.

BCC has available approximately \$70 in uncommitted, short-term bank credit facilities whereby the Company may borrow, at interest rates which are negotiated at the time of the borrowings, upon such terms as the Company and the banks may mutually agree. At December 31, 1999 and 1998, borrowings on these credit facilities totaled \$90 and \$50. The weighted average interest rate on short-term borrowings at December 31, 1999, was 5.3%.

Total debt interest, including amounts capitalized, was \$517, \$520 and \$573 for the years ended December 31, 1999, 1998 and 1997, and interest payments were \$517, \$514 and \$588, respectively.

NOTE 16

Postretirement Plans

The following table reconciles the funded status of both pensions and other postretirement benefits (OPB), principally retiree health care, to the balance on the Consolidated Statements of Financial Position. Plan assets consist primarily of equities, fixed income obligations and cash equivalents. The pension benefit obligations and plan assets shown in the table are valued as of September 30.

| | Pensions | | Other Postretirement Benefits | |
|--|-----------------|-----------------|-------------------------------|------------------|
| | 1999 | 1998 | 1999 | 1998 |
| Benefit obligation | | | | |
| Beginning balance | \$28,887 | \$25,845 | \$ 4,418 | \$ 4,008 |
| Service cost | 651 | 573 | 111 | 81 |
| Interest cost | 1,879 | 1,793 | 302 | 271 |
| Plan participants' contributions | 2 | 1 | | |
| Amendments | 52 | 489 | | |
| Actuarial loss (gain) | (2,115) | 1,862 | 1,036 | 330 |
| Benefits paid | (1,735) | (1,676) | (298) | (272) |
| Ending balance | \$27,621 | \$28,887 | \$ 5,569 | \$ 4,418 |
| Plan assets – fair value | | | | |
| Beginning balance | \$32,609 | \$33,119 | | |
| Actual return on plan assets | 6,099 | 1,146 | | |
| Company contribution | 22 | 18 | | |
| Plan participants' contributions | 2 | 1 | | |
| Benefits paid | (1,716) | (1,659) | | |
| Exchange rate adjustment | 10 | (16) | | |
| Ending balance | \$37,026 | \$32,609 | | |
| Reconciliation of funded status to net amounts recognized | | | | |
| Funded status – plan assets in excess of | | | | |
| (less than) projected benefit obligation | \$ 9,405 | \$ 3,722 | \$(5,569) | \$(4,418) |
| Unrecognized net actuarial loss (gain) | (7,230) | (1,699) | 1,063 | (21) |
| Unrecognized prior service costs | 1,418 | 1,491 | (371) | (392) |
| Unrecognized net transition asset | (135) | (241) | | |
| Net amount recognized | \$ 3,458 | \$ 3,273 | \$(4,877) | \$(4,831) |
| Amount recognized in statement of financial position | | | | |
| Prepaid benefit cost | \$ 3,845 | \$ 3,513 | | |
| Intangible asset | 64 | 105 | | |
| Accumulated other comprehensive income | 1 | 37 | | |
| Accrued benefit liability | (452) | (382) | \$(4,877) | \$(4,831) |
| Net amount recognized | \$ 3,458 | \$ 3,273 | \$(4,877) | \$(4,831) |

Components of net periodic benefit costs and other supplemental information were as follows:

| Year ended December 31, | 1999 | 1998 | 1997 |
|---|----------|----------|---------|
| Components of net periodic benefit cost – | | | |
| Pensions | | | |
| Service cost | \$ 651 | \$ 573 | \$ 506 |
| Interest cost | 1,879 | 1,793 | 1,727 |
| Expected return on plan assets | (2,689) | (2,507) | (2,163) |
| Amortization of transition asset | (106) | (86) | (86) |
| Amortization of prior service cost | 139 | 101 | 101 |
| Recognized net actuarial loss (gain) | 1 | 5 | (20) |
| Net periodic benefit cost (income) | \$ (125) | \$ (121) | \$ 65 |

| Year ended December 31, | 1999 | 1998 | 1997 |
|---|-------|-------|-------|
| Components of net periodic benefit cost – | | | |
| OPB | | | |
| Service cost | \$111 | \$ 81 | \$ 86 |
| Interest cost | 302 | 271 | 274 |
| Expected return on plan assets | (2) | | |
| Amortization of prior service cost | (47) | (45) | (45) |
| Recognized net actuarial loss (gain) | 10 | (16) | (22) |
| Net periodic benefit cost | \$374 | \$291 | \$293 |

| Weighted average assumptions as of December 31, | 1999 | 1998 | 1997 |
|---|-------|-------|-------|
| Discount rate: | | | |
| pensions and OPB | 7.50% | 6.50% | 7.00% |
| Expected return on plan assets | 9.00% | 8.75% | 8.33% |
| Rate of compensation increase | 5.50% | 4.50% | 5.00% |

Effect of 1% change in assumed health care costs

| | 1999 | 1998 | 1997 |
|--|-------|-------|-------|
| Effect on total of service and interest cost | | | |
| 1% increase | \$ 51 | \$ 44 | \$ 43 |
| 1% decrease | (44) | (39) | (38) |
| Effect on postretirement benefit obligation | | | |
| 1% increase | 530 | 452 | 410 |
| 1% decrease | (474) | (406) | (368) |

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

Certain of the pension plans provide that, in the event there is a change in control of the Company which is not approved by the Board of Directors and the plans are terminated within five years thereafter, the assets in the plans first will be used to provide the level of retirement benefits required by the Employee Retirement Income Security Act, and then any surplus will be used to fund a trust to continue present and future payments under the postretirement medical and life insurance benefits in the Company's group insurance programs.

The Company has an agreement with the Government with respect to certain of the Company pension plans. Under the agreement, should the Company terminate any of the plans under conditions in which the plan's assets exceed that plan's obligations, the Government will be entitled to a fair allocation of any of the plan's assets based on plan contributions that were reimbursed under Government contracts. Also, the Revenue Reconciliation Act of 1990 imposes a 20% nondeductible excise tax on the gross assets reverted if the Company establishes a qualified replacement plan or amends the terminating plan to provide for benefit increases; otherwise, a 50% tax is applied. Any net amount retained by the Company is treated as taxable income.

Effective January 1, 1999, two new pension plans were created for the salaried, non-union employees of pre-merger Boeing and McDonnell Douglas. Assets and liabilities associated with benefits earned through 1998 were transferred to the new plans, which provide substantially the same benefit levels as the prior plans. Effective, July 1, 1999, assets and liabilities associated with benefits earned by substantially all salaried, non-union employees covered under the Boeing North American Retirement Plan were transferred to the new pension plan created for the pre-merger Boeing employees.

The Company has certain unfunded and partially funded plans with a projected benefit obligation of \$432 and \$688; plan assets of \$43 and \$243; and unrecognized prior services costs and actuarial losses of \$124 and \$240 as of December 31, 1999 and 1998. The net provision for these plans was \$63 and \$52 for 1999 and 1998.

The principal defined contribution plans are the Company-sponsored 401(k) plans and a funded plan for unused sick leave. The provision for these defined contribution plans in 1999, 1998, and 1997 was \$409, \$417, and \$361, respectively.

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

Benefit costs were calculated based on assumed cost growth for retiree health care costs of a 10% annual rate for 1999, decreasing to a 5.5% annual growth rate by 2010. In 1998, benefit costs for retiree health care were calculated based on an annual cost growth rate of 6.9%, decreasing to a 4.5% annual growth rate by 2010.

NOTE 17

Shareholders' Equity

In August 1998, the Board of Directors approved a resolution authorizing management to repurchase up to 15% of the Company's issued and outstanding stock as of June 30, 1998 (excluding shares held by the ShareValue Trust), which would amount to 145,899,000 shares. As of December 31, 1999, 104,118,000 shares had been repurchased pursuant to this resolution.

Twenty million shares of authorized preferred stock remain unissued.

NOTE 18

Share-Based Plans

The share-based plans expense caption on the Consolidated Statements of Operations represents the total expense recognized for all company plans that are payable only in stock. These plans are described below.

In 1998, the Company adopted the expense recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. Had the Company adopted the expense recognition provision of SFAS No. 123 in 1997, net loss would have been \$332 and loss per share, both basic and diluted, would have been \$.18.

Performance Shares

Performance Shares are stock units that are convertible to common stock contingent upon stock price performance. If, at any time up to five years after award, the stock price reaches and maintains a price equal to 161.0% of the stock price at the date of the award (representing a growth rate of 10% compounded annually for five years), 25% of the Performance Shares awarded are convertible to common stock. Likewise, at stock prices equal to 168.5%, 176.2%, 184.2%, 192.5% and 201.1% of the stock price at the date of award, the cumulative portion of awarded Performance Shares convertible to common stock are 40%, 55%, 75%, 100% and 125%, respectively. Performance Shares awards not converted to common stock expire five years after the date of the award; however, the Compensation Committee of the Board of Directors may, in its discretion, allow vesting of up to 100% of the target Performance Shares if the Company's total shareholder return (stock price appreciation plus dividends) during the five-year performance period exceeds the average total shareholder return of the S&P 500 over the same period.

The following table summarizes information about Performance Shares outstanding at December 31, 1999 and 1998 (shares in thousands).

| Grant Date | Issue Price | Performance Shares Outstanding | |
|------------|-------------|--------------------------------|-------|
| | | 1999 | 1998 |
| 2/23/98 | \$50 11/16 | 3,459 | 3,586 |
| 12/14/98 | 33 9/16 | 46 | 46 |
| 2/22/99 | 36 1/4 | 4,569 | — |

The Company recognized share-based expense of \$77 and \$38 for 1999 and 1998 attributable to Performance Shares.

Other stock awards

The total number of stock unit awards that are convertible only to common stock and not contingent upon stock price were 1,629,945, 1,161,652 and 301,631 as of December 31, 1999, 1998 and 1997, respectively.

ShareValue Trust

The ShareValue Trust, established effective July 1, 1996, is a 14-year irrevocable trust that holds Boeing common stock, receives dividends, and distributes to employees, in the form of stock, appreciation in value above a 3% per annum threshold rate of return. As of December 31, 1999, the Trust held 38,696,289 shares of the Company's common stock, split equally between two funds, "fund 1" and "fund 2." If on June 30, 2000, the market value of fund 1 exceeds \$943 (the threshold representing a 3% per annum rate of return), the amount in excess of the threshold will be distributed to employees. The June 30, 2000, market value of fund 1 after distribution (if any) will be the basis for determining any potential distribution on June 30, 2004. Similarly, if on June 30, 2002, the market value of fund 2 exceeds \$949, the amount in excess of the threshold will be distributed to employees. Shares held by the Trust on June 30, 2010, after final distribution will revert back to the Company.

The ShareValue Trust is accounted for as a contra-equity account and stated at market value. Market value adjustments are offset to additional paid-in capital. The Company recognized a share-based expense of \$72, \$72 and \$(99) for the years 1999, 1998 and 1997, respectively, attributable to the ShareValue Program. The 1998 and 1999 ShareValue Trust expense was calculated under the provisions of SFAS No. 123.

Stock Options

The Company's 1997 Incentive Stock Plan permits the grant of stock options, stock appreciation rights (SARs) and restricted stock awards (denominated in stock or stock units) to any employee of the Company or its subsidiaries and contract employees. Under the terms of the plan, 30,000,000 shares are authorized for issuance

upon exercise of options, as payment of SARs and as restricted stock awards, of which no more than an aggregate of 6,000,000 shares are available for issuance as restricted stock awards and no more than an aggregate of 3,000,000 shares are available for issuance as restricted stock that is subject to restrictions based on continuous employment for less than three years. This authorization for issuance under the 1997 plan will terminate on April 30, 2007. As of December 31, 1999, no SARs have been granted under the 1997 Plan.

Options and SARs have been granted with an exercise price equal to the fair market value of the Company's stock on the date of grant and expire ten years after the grant date. Vesting is generally over a five-year period, with portions of a grant becoming exercisable at one year, three years and five years after the grant date. SARs, which have been granted only under the 1988 and 1984 plans, were granted in tandem with stock options; therefore, exercise of the SAR cancels the related option and exercise of the option cancels the attached SAR.

In 1994, McDonnell Douglas shareholders approved the 1994 Performance Equity Incentive Plan. Restricted stock issued under this plan prior to 1997 vested upon the merger between McDonnell Douglas and The Boeing Company. As of December 31, 1999, a total of 594,000 shares had been granted, and of those, 244,205 remain restricted. Substantially all compensation relating to these restricted shares is being amortized to expense over a period of six years. Unearned compensation is reflected as a component of shareholders' equity.

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

| <i>(Shares in thousands)</i> | 1999 | | 1998 | | 1997 | |
|---------------------------------------|---------------|---------------------------------|---------------|---------------------------------|---------------|---------------------------------|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Number of shares under option: | | | | | | |
| Outstanding at beginning of year | 28,653 | \$36.03 | 27,705 | \$32.36 | 26,525 | \$25.47 |
| Granted | 3,462 | 43.40 | 3,772 | 52.72 | 6,320 | 53.16 |
| Exercised | (2,345) | 22.03 | (2,493) | 20.77 | (4,502) | 21.77 |
| Canceled or expired | (515) | 39.33 | (255) | 46.35 | (223) | 47.84 |
| Exercised as SARs | (27) | 19.70 | (76) | 19.27 | (415) | 15.21 |
| Outstanding at end of year | 29,228 | 38.02 | 28,653 | 36.03 | 27,705 | 32.36 |
| Exercisable at end of year | 19,749 | \$34.58 | 15,577 | \$29.57 | 12,277 | \$24.09 |

Note 18 (continued)

As of December 31, 1999, 13,174,962 shares were available for grant under the 1997 Incentive Stock Plan, and 3,603,564 shares were available for grant under the Incentive Compensation Plan.

The following table summarizes information about stock options outstanding at December 31, 1999 (shares in thousands).

| Range of Exercise Prices | Options Outstanding | | |
|--------------------------|---------------------|---|---------------------------------|
| | Shares | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price |
| \$10 to \$19 | 3,510 | 3.7 | \$16.27 |
| \$20 to \$29 | 6,843 | 4.1 | \$23.32 |
| \$30 to \$39 | 1,704 | 6.2 | \$38.45 |
| \$40 to \$49 | 7,913 | 7.8 | \$42.33 |
| \$50 to \$59 | 9,258 | 7.7 | \$53.36 |
| | 29,228 | | |

| Range of Exercise Prices | Options Exercisable | |
|--------------------------|---------------------|---------------------------------|
| | Shares | Weighted Average Exercise Price |
| \$10 to \$19 | 3,275 | \$16.42 |
| \$20 to \$29 | 6,050 | \$23.33 |
| \$30 to \$39 | 1,661 | \$38.52 |
| \$40 to \$49 | 3,532 | \$41.13 |
| \$50 to \$59 | 5,231 | \$53.30 |
| | 19,749 | |

The Company has determined the weighted average fair values of stock-based arrangements granted, including ShareValue Trust, during 1999, 1998 and 1997 to be \$17.67, \$19.99 and \$20.67, respectively. The fair values of stock-based compensation awards granted and of potential distributions under the ShareValue Trust arrangement were estimated using a binomial option-pricing model with the following assumptions.

| | Expected | | |
|------|------------|-------------|------------|
| | Grant Date | Option Term | Volatility |
| 1999 | 6/28/99 | 9 years | 22% |
| 1998 | 4/13/98 | 9 years | 20% |
| 1997 | 1/13/97 | 9 years | 19% |
| | 2/24/97 | 9 years | 19% |

| | Grant Date | Expected Dividend Yield | Risk-Free Interest Rate |
|------|------------|-------------------------|-------------------------|
| 1999 | 6/28/99 | 1.1% | 6.3% |
| 1998 | 4/13/98 | 1.1% | 5.9% |
| 1997 | 1/13/97 | 1.1% | 6.6% |
| | 2/24/97 | 1.1% | 6.6% |

The Company recognized share-based expense of \$35 and \$31 in 1999 and 1998 attributable to stock options, with an offset to additional paid-in capital, and recognized no expense in 1997.

NOTE 19

Derivative Financial Instruments

The derivative financial instruments held by the Company at December 31, 1999, consisted of simple and specifically tailored interest rate swaps and foreign currency forward contracts. The Company does not trade in derivatives for speculative purposes.

The interest rate swaps, which are associated with certain customer financing receivables and long-term debt, are designed to achieve a desired balance of fixed and variable rate positions. These swaps are accounted for as integral components of the associated receivable and debt, with interest accrued and recognized based upon the effective rates. Due to the component nature of these interest rate swaps, there are no associated gains or losses. (See Note 10, Note 15 and Note 22.)

Foreign currency forward contracts are entered into to hedge specific receipt and expenditure commitments made in foreign currencies. As of December 31, 1999, the notional amount of foreign currency forward contracts through 2003 denominated in foreign currencies was \$521, with unrealized losses, net of unrealized gains, of \$5.

The Company has not completed the process of evaluating the impact that will result from adopting Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The Company therefore has not yet identified the impact that adopting SFAS No. 133 will have on its financial position and results of operations. SFAS No. 133 is required to be adopted in 2001.

The Company believes that there is no significant credit risk associated with the potential failure of any counterparty to perform under the terms of derivative financial instruments.

NOTE 20

Financial Instruments with Off-Balance-Sheet Risk

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

Irrevocable financing commitments related to aircraft on order, including options, scheduled for delivery through 2004 totaled \$5,015 and \$6,239 as of December 31, 1999 and 1998. The Company anticipates that not all of these commitments will be utilized and that it will be able to arrange for third-party investors to assume a portion of the remaining commitments, if necessary. The Company has additional commitments to arrange for commercial equipment financing totaling \$212 and \$163 as of December 31, 1999 and 1998.

Participations in customer financing receivables with third-party investors that involve interest rate terms different from the underlying receivables totaled \$58 and \$62 as of December 31, 1999 and 1998.

The Company's maximum exposure to credit-related losses associated with credit guarantees, without regard to collateral and net of provisions established, totaled \$1,053 (\$603 associated with commercial aircraft and collateralized) and \$1,309 (\$730 associated with commercial aircraft and collateralized) as of December 31, 1999 and 1998.

The Company's maximum exposure to losses associated with asset value guarantees, without regard to collateral and net of provisions established, totaled \$353 and \$444 as of December 31, 1999 and 1998. These asset value guarantees relate to commercial aircraft and are collateralized.

As of December 31, 1999 and 1998, accounts payable and other liabilities included \$561 and \$463 attributable to risks associated with off-balance-sheet financing commitments.

NOTE 21

Significant Group Concentrations of Credit Risk

Financial instruments involving potential credit risk are predominantly with commercial airline customers and the U.S. Government. As of December 31, 1999, off-balance-sheet financial instruments described in Note 20 predominantly related to commercial aircraft customers. Of the \$9,457 in accounts receivable and customer financing included in the Consolidated Statements of Financial Position, \$6,581 related to commercial aircraft customers and \$1,970 related to the U.S. Government. Other than Trans World Airlines (TWA), discussed below, no single commercial airline customer was associated with a significant portion of all financial instruments relating to customer financing. Financing for aircraft is collateralized by security in the related asset, and historically the Company has not experienced a problem in accessing such collateral.

Of the \$6,581 of commercial accounts receivable and aircraft customer financing, \$3,952 is related to customers that the Company believes have less than investment-grade credit. Similarly, of the \$4,831 of irrevocable financing commitments related to aircraft on order including options, \$3,063 is related to customers that the Company believes have less than investment-grade credit.

As of December 31, 1999, the Company had customer financing in place totaling \$1,125 and commitments to arrange for future financing totaling \$1,327 with TWA. TWA continues to operate under a reorganization plan, confirmed by the U.S. Bankruptcy Court in 1995, which restructured its indebtedness and leasehold obligations to its creditors. In addition, TWA continues to face financial and operational challenges. Further deterioration of TWA's financial condition could adversely affect the performance of customer financing extended to TWA; however, based on the Company's assessment of the underlying collateral position held by the Company, possible future non-performance of financing currently extended to TWA would not have a material adverse impact on the Company's liquidity or results of operations.

NOTE 22

Disclosures about Fair Value of Financial Instruments

As of December 31, 1999 and 1998, the carrying amount of accounts receivable was \$3,453 and \$3,288, and the fair value of accounts receivable was estimated to be \$3,385 and \$3,239. The lower fair value reflects a discount due to deferred collection for certain receivables that will be collected over an extended period. The carrying value of accounts payable is estimated to approximate fair value.

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

As of December 31, 1999 and 1998, the carrying amount of debt, net of capital leases, was \$6,346 and \$6,539, and the fair value of debt, based on current market rates for debt of the same risk and maturities, was estimated at \$6,393 and \$7,198. The Company's debt, however, is generally not callable until maturity.

With regard to financial instruments with off-balance-sheet risk, it is not practicable to estimate the fair value of future financing commitments, and all other off-balance-sheet financial instruments are estimated to have only a nominal fair value. The terms and conditions reflected in the outstanding guarantees and commitments for financing assistance are not materially different from those that would have been negotiated as of December 31, 1999.

NOTE 23

Contingencies

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

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

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

The costs incurred and expected to be incurred in connection with such activities have not had, and are not expected to have, a material impact to the Company's financial position. With respect to results of operations, related charges have averaged less than 2% of annual net earnings. Such accruals as of December 31, 1999, without consideration for the related contingent recoveries from insurance carriers, are less than 2% of total liabilities.

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

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

In 1991, the U.S. Navy notified the Company and General Dynamics Corporation (the Team) that it was terminating for default the Team's contract for development and initial production of the A-12 aircraft. The Team filed a legal action to contest the Navy's default termination, to assert its rights to convert the termination to one for "the convenience of the Government," and to obtain payment for work done and costs incurred on the A-12 contract but not paid to date. As of December 31, 1999, inventories included approximately \$581 of recorded costs on the A-12 contract, against which the Company has established a loss provision of \$350. The amount of the provision, which was established in 1990, was based on the Company's belief, supported by an opinion of outside counsel, that the termination for default would be converted to a termination for convenience, that the Team would establish a claim for contract adjustments for a minimum of \$250, that there was a range of reasonably possible results on termination for convenience, and that it was prudent to provide for what the Company then believed was the upper range of possible loss on termination for convenience, which was \$350.

On July 1, 1999, the United States Court of Appeals for the Federal Circuit reversed a March 31, 1998, judgment of the United States Court of Federal Claims for the Team. The 1998 judgment was based on a determination that the Government had not exercised the required discretion before issuing a termination for default. It converted the termination to a termination for convenience, and determined the Team was entitled to be paid \$1,200, plus statutory interest from June 26, 1991, until paid. The Court of Appeals remanded the case to the Court of Federal Claims for a determination as to whether the Government is able to sustain the burden of showing a default was justified and other proceedings. Final resolution of the A-12 litigation will depend on such litigation and possible further appeals, or negotiations with the Government.

In the Company's opinion, the loss provision continues to provide adequately for the reasonably possible reduction in value of A-12 net contracts in process as of December 31, 1999, as a result of a termination of the contract for the convenience of the Government. The Company has been provided with an opinion of outside counsel that (i) the Government's termination of the contract for default was contrary to law and fact, (ii) the rights and obligations of the Company are the same as if the termination had been issued for the convenience of the Government, and (iii) subject to prevailing on the issue that the termination is properly one for the convenience of the Government, the probable recovery by the Company is not less than \$250.

On October 31, 1997, a federal securities lawsuit was filed against the Company in the U.S. District Court for the Western District of Washington, in Seattle. The lawsuit names as defendants the Company and three of its then-executive officers. Additional lawsuits of a similar nature have been filed in the same court. These lawsuits were consolidated on February 24, 1998. Initially, the plaintiffs sought to represent a class of purchasers of Boeing stock between July 21, 1997, and October 22, 1997, (the "Class Period"), including recipients of Boeing stock in the McDonnell Douglas merger. (July 21, 1997, was the date on which the Company announced its second quarter results, and October 22, 1997, was the date on which the Company announced charges to earnings associated with production problems being experienced on commercial aircraft programs.) The lawsuits generally allege that the defendants desired to keep the Company's share price as high as possible in order to ensure that the McDonnell Douglas shareholders would approve the merger and, in the case of two of the individual defendants, to benefit directly from the sale of Boeing stock during the Class Period. By orders dated September 15, 1999, and February 3, 2000, plaintiffs were granted leave to amend their complaint to broaden their action (1) to encompass claims of the original proposed class members for Boeing securities purchases made between April 7, 1997 and July 20, 1997; (2) to include certain alleged misstatements purportedly made by the Company going back to April 7, 1997; and (3) to add allegations that the Company's 10-Q reports for the first and second quarters of 1997 were false and misleading. The plaintiffs seek compensatory damages and treble damages. The court has not yet ruled on class certification. The action is currently set for trial on October 2, 2000. The Company believes that the allegations are without merit and that the outcome of these lawsuits will not have a material adverse effect on its earnings, cash flow or financial position.

On October 19, 1999, an indictment was returned by a federal grand jury sitting in the District of Columbia charging that McDonnell Douglas Corporation (MDC), a wholly owned subsidiary of the Company, and MDC's Douglas Aircraft Company division, conspired to and made false statements and concealed material facts on export license applications and in connection with export licenses, and possessed and sold machine tools in violation of the Export Administration Act. The indictment also charges one employee with participation in

Note 23 (continued)

the alleged conspiracy. The indictment relates to the sale and export to China in 1993-1995 of surplus, used machine tools sold by Douglas Aircraft Company to China National Aero-Technology Import and Export Corporation for use in connection with the MD-80/90 commercial aircraft Trunkliner Program in China.

As a result of the indictment, the Department of State has discretion to deny defense-related export privileges to MDC or a division or subsidiary of MDC. The agency exercised that discretion on January 5, 2000, by establishing a "denial policy" with respect to defense-related exports of MDC and its subsidiaries; most of MDC's major existing defense programs were, however, excepted from that policy due to overriding U.S. foreign policy and national security interests. Other exceptions may be granted. There can, however, be no assurance as to how the Department will exercise its discretion as to program or transaction exceptions for other programs or future defense-related exports. In addition, the

Department of Commerce has authority to temporarily deny other export privileges to, and the Department of Defense has authority to suspend or debar from contracting with the military departments, MDC or a division or subsidiary of MDC. Neither agency has taken action adverse to MDC or its divisions or subsidiaries thus far. Based upon all available information, the Company does not expect actions that would have a material adverse effect on its financial position or continuing operations. In the unanticipated event of a conviction, MDC would be subject to Department of State and Department of Commerce denials or revocations of MDC export licenses. MDC also would be subject to Department of Defense debarment proceedings.

NOTE 24

Segment Information

Segment information may be found on pages 48-50.

Quarterly Financial Data (Unaudited)

| <i>(Dollars in millions except per share data)</i> | 1999 | | | | 1998 | | | | |
|--|---------|----------|----------|----------|----------|----------|----------|----------|----------|
| | Quarter | 4th | 3rd | 2nd | 1st | 4th | 3rd | 2nd | 1st |
| Sales and other operating revenues | | \$15,200 | \$13,279 | \$15,122 | \$14,392 | \$17,099 | \$12,721 | \$13,389 | \$12,945 |
| Earnings from operations | | 970 | 668 | 793 | 739 | 602 | 430 | 416 | 119 |
| Net earnings | | 662 | 477 | 701 | 469 | 465 | 347 | 258 | 50 |
| Basic earnings per share | | .75 | .52 | .75 | .50 | .49 | .36 | .26 | .05 |
| Diluted earnings per share | | .74 | .52 | .75 | .50 | .48 | .36 | .26 | .05 |
| Cash dividends per share | | .14 | .14 | .14 | .14 | .14 | .14 | .14 | .14 |
| Market price: | | | | | | | | | |
| High | | 46.44 | 48.50 | 45.88 | 37.69 | 44.00 | 50.13 | 56.25 | 54.75 |
| Low | | 37.06 | 41.06 | 33.50 | 32.56 | 29.50 | 30.38 | 42.13 | 42.81 |
| Quarter end | | 41.44 | 42.63 | 44.00 | 34.00 | 32.63 | 34.31 | 44.56 | 52.13 |

Independent Auditors' Report

Board of Directors and Shareholders, The Boeing Company:

We have audited the accompanying consolidated statements of financial position of The Boeing Company and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of The Boeing Company and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 18 to the financial statements, The Boeing Company changed its method of expense recognition for share-based incentive plans in 1998.

Deloitte & Touche LLP

Seattle, Washington

January 28, 2000

Report of Management

To the Shareholders of The Boeing Company:

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

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

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

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

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

Deborah C. Hopkins
Senior Vice President and
Chief Financial Officer

Laurette T. Koellner
Vice President and
Corporate Controller

Five-Year Summary

| (Dollars in millions except per share data) | 1999 | 1998 | 1997 | 1996 | 1995 |
|--|-----------------|------------------|------------------|------------------|-----------------|
| Operations | | | | | |
| Sales and other operating revenues | | | | | |
| Commercial Airplanes (a) | \$38,409 | \$ 36,880 | \$ 27,479 | \$ 19,916 | \$17,511 |
| Military Aircraft and Missiles | 12,220 | 12,990 | | | |
| Space and Communications | <u>6,831</u> | <u>6,889</u> | | | |
| Information, Space and Defense Systems | 19,051 | 19,879 | 18,125 | 14,934 | 14,849 |
| Customer and commercial financing, other | 837 | 730 | 746 | 603 | 600 |
| Accounting differences/eliminations (a) | (304) | (1,335) | (550) | | |
| Total | \$57,993 | \$ 56,154 | \$ 45,800 | \$ 35,453 | \$32,960 |
| Net earnings (loss) | \$ 2,309 | \$ 1,120 | \$ (178) | \$ 1,818 | \$ (36) |
| Basic earnings (loss) per share | 2.52 | 1.16 | (.18) | 1.88 | (.04) |
| Diluted earnings (loss) per share | 2.49 | 1.15 | (.18) | 1.85 | (.04) |
| Cash dividends paid | \$ 537 | \$ 564 | \$ 557 | \$ 480 | \$ 434 |
| Per share | .56 | .56 | .56 | .55 | .50 |
| Other income, principally interest | 585 | 283 | 428 | 388 | 280 |
| Research and development expense | 1,341 | 1,895 | 1,924 | 1,633 | 1,674 |
| General and administrative expense | 2,044 | 1,993 | 2,187 | 1,819 | 1,794 |
| Additions to plant and equipment, net | 1,236 | 1,665 | 1,391 | 971 | 747 |
| Depreciation of plant and equipment | 1,330 | 1,386 | 1,266 | 1,132 | 1,172 |
| Employee salaries and wages | 11,019 | 12,074 | 11,287 | 9,225 | 8,688 |
| Year-end workforce | 197,000 | 231,000 | 238,000 | 211,000 | 169,000 |
| Financial position at December 31 | | | | | |
| Total assets | \$36,147 | \$ 37,024 | \$ 38,293 | \$ 37,880 | \$31,877 |
| Working capital | 2,056 | 2,836 | 5,111 | 7,783 | 7,490 |
| Net plant and equipment | 8,245 | 8,589 | 8,391 | 8,266 | 7,927 |
| Cash and short-term investments | 3,454 | 2,462 | 5,149 | 6,352 | 4,527 |
| Total debt | 6,732 | 6,972 | 6,854 | 7,489 | 5,401 |
| Customer and commercial financing assets | 6,004 | 5,711 | 4,600 | 3,888 | 4,212 |
| Shareholders' equity | 11,462 | 12,316 | 12,953 | 13,502 | 12,527 |
| Per share | 13.16 | 13.13 | 13.31 | 13.96 | 12.80 |
| Common shares outstanding (in millions) (b) | 870.8 | 937.9 | 973.5 | 967.2 | 978.6 |
| Contractual backlog | | | | | |
| Commercial Airplanes | \$72,972 | \$ 86,057 | \$ 93,788 | \$ 86,151 | \$73,715 |
| Military Aircraft and Missiles | 15,691 | 17,007 | | | |
| Space and Communications | <u>10,585</u> | <u>9,832</u> | | | |
| Information, Space and Defense Systems | 26,276 | 26,839 | 27,852 | 28,022 | 21,773 |
| Total | \$99,248 | \$112,896 | \$121,640 | \$114,173 | \$95,488 |

Cash dividends have been paid on common stock every year since 1942.

(a) For Commercial Airplanes segment sales and other operating revenues, years 1996 and 1995 are reported in accordance with GAAP; years 1999, 1998 and 1997 are reported in accordance with segment reporting, as discussed in Note 24.

(b) Computation excludes outstanding shares held by the ShareValue Trust.

Index to Financial Report

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| <p>Accounting policies, summary of significant</p> <p>Accounts payable and other liabilities</p> <p>Accounts receivable</p> <p>Acquisition of Hughes space and communication business</p> <p>Airline deregulation</p> <p>Airline industry environment</p> <p>Asia-Pacific economies</p> <p>Backlog</p> <p>Capital resources</p> <p>Capitalized interest—construction-period tooling</p> <p>Capitalized interest—property, plant and equipment</p> <p>Cash and cash equivalents—accounting policy</p> <p>Cash flow summary</p> <p>Cautionary statement on forward-looking information</p> <p>Commercial Airplanes business environment and trends</p> <p>Commercial aircraft program development, time horizon (graph)</p> <p>Commercial Airplanes sales by geographic region (graph)</p> <p>Commercial jet aircraft deliveries by model</p> <p>Consolidated statements of cash flows</p> <p>Consolidated statements of financial position</p> <p>Consolidated statements of operations</p> <p>Consolidated statements of shareholders' equity</p> <p>Contingencies</p> <p>Contingent items</p> <p>Contract and program accounting—accounting policy</p> <p>Credit risk, significant group concentrations</p> <p>Credit-line agreements</p> <p>Customer and Commercial Financing</p> <p>Debt</p> <p>Deliveries, commercial jet aircraft</p> <p>Derivative financial instruments</p> <p>Earnings</p> <p>Earnings (graph)</p> <p>Earnings per share</p> <p>Equity in income (loss) from joint ventures</p> <p>Estimates, use of</p> <p>Financial highlights</p> <p>Financial instruments with off-balance-sheet risk</p> <p>Financial instruments, fair value</p> <p>Financing commitments</p> <p>Five-year summary</p> <p>Foreign sales</p> <p>Gain on dispositions</p> <p>Global economic and passenger traffic trends</p> <p>Goodwill</p> <p>Goodwill—accounting policy</p> <p>Income tax payments</p> <p>Income taxes</p> <p>Income taxes—accounting policy</p> <p>Independent auditors' report</p> | <p>56</p> <p>62</p> <p>59</p> <p>45</p> <p>42</p> <p>42</p> <p>42</p> <p>50</p> <p>39</p> <p>60</p> <p>61</p> <p>57</p> <p>38</p> <p>30</p> <p>42</p> <p>36</p> <p>31</p> <p>31</p> <p>53</p> <p>52</p> <p>51</p> <p>54</p> <p>70</p> <p>39</p> <p>56</p> <p>69</p> <p>63</p> <p>60</p> <p>63</p> <p>69</p> <p>31</p> <p>68</p> <p>32</p> <p>32</p> <p>58</p> <p>58</p> <p>56</p> <p>56</p> <p>63</p> <p>31</p> <p>68</p> <p>32</p> <p>32</p> <p>58</p> <p>58</p> <p>56</p> <p>56</p> <p>69</p> <p>70</p> <p>69</p> <p>74</p> <p>49</p> <p>58</p> <p>42</p> <p>61</p> <p>57</p> <p>62</p> <p>61</p> <p>57</p> <p>73</p> <p>59</p> <p>60</p> <p>56</p> <p>37</p> <p>38</p> <p>46</p> <p>30</p> <p>42</p> <p>41</p> <p>30</p> <p>58</p> <p>44</p> <p>44</p> <p>32</p> <p>46</p> <p>56</p> <p>33</p> <p>66</p> <p>57</p> <p>64</p> <p>46</p> <p>60</p> <p>61</p> <p>57</p> <p>72</p> <p>73</p> <p>36</p> <p>36</p> <p>30</p> <p>30</p> <p>73</p> <p>36</p> <p>30</p> <p>30</p> <p>57</p> <p>31</p> <p>56</p> <p>48</p> <p>66</p> <p>57</p> <p>47</p> <p>66</p> <p>67</p> <p>67</p> <p>57</p> <p>86</p> <p>45</p> <p>46</p> <p>62</p> <p>59</p> <p>41</p> |
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Boeing Commercial Airplanes Group

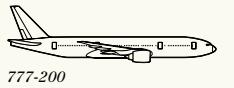
Alan Mulally, president / Renton, Washington



747-400

The 747-400 seats 416 to 524 passengers and has a range of about 8,400 miles. With its huge capacity, long range and fuel efficiency, the 747 offers the lowest operating cost per seat of any twin-aisle commercial jetliner. The 747-400 is available in an all-cargo freighter version as well as a combi model for passengers and cargo.

Orders: 1,313* Deliveries: 1,236



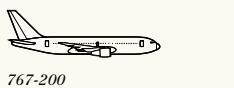
777-200



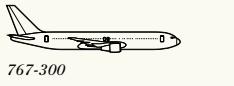
777-300

The 777-200, which seats 305 to 328 passengers, depending on configuration, has a range of up to 5,925 miles. The 777-200ER (extended range) was first delivered in February 1997 and can fly the same number of passengers up to 8,861 miles. The 777-300, first delivered in May 1998, is about 33 feet longer than the -200 and can carry from 328 to 394 passengers, depending on seat configuration, with a range of 6,790 miles.

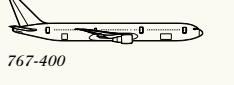
Orders: 450* Deliveries: 261



767-200



767-300



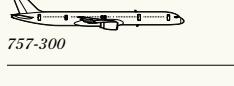
767-400

The 767-200 can fly 181 to 224 passengers up to 7,600 miles in its extended-range version. The 767-300, also offered in an extended-range version, offers 20 percent more passenger seating. A freighter version of the 767-300 is available. The newest member of the family, the extended-range 767-400ER, is scheduled to enter service in 2000 and will carry 275 passengers in two classes up to 6,480 miles.

Orders: 895* Deliveries: 773



757-200



757-300

Seating 194 passengers in two classes, the 757-200 is ideal for high-demand, short- to medium-range operations and can fly nonstop intercontinental routes. It is also available in a freighter version. The 757-300 can carry 240 to 289 passengers on routes of up to 4,000 miles.

Orders: 984* Deliveries: 903



737-500



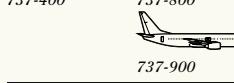
737-600



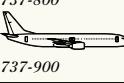
737-300



737-700



737-400



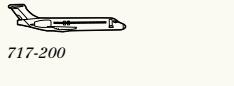
737-800



737-900

The Boeing 737 is the best-selling commercial jetliner of all time. The Next-Generation 737-600/-700/-800/-900, the most recent additions to the family, have outsold all other airplanes in their market segment. The 737 is the only airplane family to span the entire 100- to 189-seat market. The family also includes the Boeing Business Jet derivative of the 737-700.

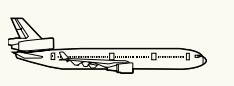
Orders: 4,492* Deliveries: 3,576



717-200

The newest member of the Boeing commercial jet airplane family was introduced in October 1995 as the McDonnell Douglas MD-95. The twinjet meets the growing need worldwide for a 100-seat, high-frequency, short-range jet. The 717 received prominent attention in 1999 on two customer demonstration tours, one in Europe and one in Asia.

Orders: 130* Deliveries: 12



MD-11

MD-11 production will be phased out with the delivery of orders now on hand, with the last delivery scheduled for early 2001.

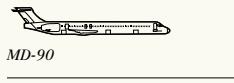
Orders: 200* Deliveries: 194



MD-80

Boeing delivered the last of 1,191 MD-80s late in 1999, ending the production run that began in 1980.

Orders: 1,191* Deliveries: 1,191



MD-90

Boeing will continue to produce the MD-90 twinjet until early 2000, when current production commitments end.

Orders: 114* Deliveries: 111

*Orders and deliveries as of December 31, 1999. Order numbers do not include options.

Boeing Military Aircraft and Missile Systems Group

Mike Sears, president / St. Louis, Missouri

Selected programs



F/A-18C/D Hornet



F/A-18E/F Super Hornet

The F/A-18 Hornet strike fighter – flown by the U.S. Navy, U.S. Marine Corps and the air forces of seven other nations – is the first tactical aircraft designed from its inception to perform both fighter (air-to-air) and attack (air-to-surface) missions. Deliveries of the latest version, the Super Hornet, winner of the 1999 Collier Trophy, continued ahead of schedule in 1999. The Navy completed its operational evaluation of the aircraft, and the service's first Super Hornet squadron began flight operations.



Joint Strike Fighter

Boeing is demonstrating the lean design and manufacturing processes that will keep JSF affordable for the military services. Boeing is building and flight-testing two concept demonstration aircraft while also designing the operational JSF. Selection of a single contractor to build as many as 3,000 of the multiservice fighters is scheduled to take place in 2001.



F-22 Raptor

Boeing and Lockheed Martin are developing the U.S. Air Force's next-generation air superiority fighter. The team is building nine flight-test and two ground-test aircraft, and eight production-readiness test vehicles. F-22 flight testing is on schedule, and the Raptor is meeting all performance requirements.



F-15E Eagle

The F-15E Eagle is the world's most capable multirole fighter and the backbone of the U.S. Air Force fleet. The F-15E carries payloads larger than any other tactical fighter but retains the air-to-air capability of the F-15C. It can operate around the clock and in any weather. Since entering operational service, the F-15 has a perfect air combat record with more than 100 victories and no losses. Three other nations fly the F-15.



AV-8B Harrier II Plus

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



T-45 Goshawk

The T-45 Goshawk aircraft is the key component of the U.S. Navy's T-45 Training System. The system includes advanced flight simulators, a computer-assisted instructional program, a computerized training integration system, and a contractor logistics support package. The T-45C, the digitally equipped upgrade to the T-45, is in use at Naval Air Station Meridian, Mississippi.



C-17 Globemaster III

The C-17 Globemaster III is the most advanced, versatile airlifter ever made. It is capable of flying long distances, carrying 170,000 pounds of payload and landing on short, austere runways close to front lines. Since entering operational service in 1995, the C-17 has become the U.S. Air Force's premier airlifter. It has supported U.S. contingency, peacekeeping and humanitarian relief efforts around the world.



V-22 Osprey

In partnership with Bell Helicopter Textron, Boeing has developed the V-22 Osprey tiltrotor aircraft. Low-rate initial production and flight testing have begun. Initial deliveries of 360 aircraft to the U.S. Marine Corps began in 1999. The U.S. Special Operations Command has 50 CV-22s on order.



CH-47 Chinook

Preparation is under way for a new modernization program for the U.S. Army's CH-47 Chinook. The CH-47F is scheduled to enter the fleet in 2003 with several major system improvements. Under this program, Chinooks will remain in Army service at least until 2033 and will achieve an unprecedented 71-year service life. Boeing is also manufacturing CH-47SD Chinooks for international customers.



RAH-66 Comanche

A Boeing-Sikorsky team is developing the RAH-66 Comanche, the U.S. Army's 21st century combat helicopter. Two prototypes are in flight test. In the year 2000, the program will begin development of 13 production-representative aircraft for operational test, evaluation and training.



AH-64D Apache Longbow

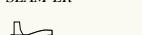
The AH-64D Apache Longbow, an advanced version of the battle-proven AH-64A Apache, is the most lethal, survivable, deployable and maintainable multimission combat helicopter in the world. Boeing has a multiyear contract to remanufacture 232 AH-64As into AH-64Ds for the U.S. Army. The Netherlands and the United Kingdom have also ordered this new version of the Apache.



SLAM ER



JDAM



CALCM

A world leader in all-weather precision munitions, Boeing covers a wide spectrum of attack weapon capabilities. These include the Standoff Land Attack Missile Expanded Response (SLAM ER), the Joint Direct Attack Munition (JDAM), the Conventional Air Launched Cruise Missile (CALCM), the Air-to-Ground Missile (AGM-130), and Brimstone and Harpoon missiles. Customers include all U.S. military services and the armed forces of 27 other nations. Export sales are approved by the U.S. government.

Boeing Space and Communications Group

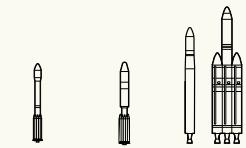
Jim Albaugh, president / Seal Beach, California

Selected programs



Space Shuttle

The Space Shuttle is the world's only operational, reusable and human-rated launch vehicle. As a United Space Alliance partner, Boeing builds, maintains, modifies, operates and provides engineering support for the Shuttle system. Boeing also builds, tests and performs flight processing for Shuttle's main engines – the world's only reusable liquid-fueled large rocket engines. Boeing-developed upgrades will enable the Shuttle to fly to 2012 and beyond.



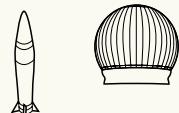
Delta II Delta III Delta IV

In service since the 1960s, the Delta family of launch vehicles continues to evolve to meet launch market needs. More than 275 Delta rockets have been launched since 1960. Delta II enjoys a 97 percent success rate, and larger Delta III and Delta IV rockets will begin operations in 2000 and 2001 respectively.



International Space Station

Boeing is prime contractor to NASA for the design, development and on-orbit performance of the International Space Station. The first components were joined in orbit in 1998. In 2000 the station will begin hosting humans and by 2004 will permanently house up to seven crewmembers. Station assembly will require more than 40 U.S. and Russian launches.



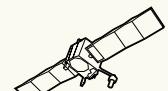
NMD interceptor

Boeing is Lead System Integrator for the National Missile Defense (NMD) program, which is designed to defend the United States from a limited ICBM attack. The three-year, \$1.5 billion effort calls for the company to develop, test and integrate all NMD elements. A successful hit-to-kill intercept was conducted in October 1999. Current plans include developing and demonstrating the system to a point at which a decision to deploy can be made by mid-2000.



Future Imagery Architecture (FIA)

During September 1999, a Boeing-led team was awarded the FIA contract from the National Reconnaissance Office (NRO) – a key element of the NRO's space-based architecture. This significant contract, which extends through 2010, confirms the leadership position of Boeing in the area of space imaging.



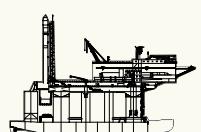
Global Positioning System

Boeing has built a total of 40 GPS satellites. Currently, Boeing is under contract to build six follow-on Block IIF satellites with a possibility of 27 additional vehicles. Additionally, Boeing is under Air Force contract to lead the ground control segment of the GPS constellation.



Global, mobile communications network

Boeing is currently developing a global, mobile communications network, a low-risk system focused on two-way broadband mobile communications for airlines and their passengers, government platforms, and premier business jet customers. The system will provide two-way Internet/intranet connectivity to business and leisure passengers, Crew Information Services (CIS) for aircraft, and custom entertainment.



Sea Launch

Boeing is part of an international consortium, including firms from Russia, Ukraine and Norway, that conducts commercial satellite launches from a mobile sea-based platform. Sea Launch successfully launched its first commercial payload in October 1999 from the equatorial Pacific. Home port is Long Beach, California.



Airborne Laser

As Team ABL, Boeing, TRW and Lockheed Martin have a \$1.1 billion contract to conduct the program definition and risk reduction phase of the Airborne Laser program. This U.S. Air Force effort is intended to explore the feasibility of an airborne laser system that could destroy tactical theater ballistic missiles during their boost phase.



737-700 AEW&C

In July 1999, a Boeing-led team was selected to develop an Airborne Early Warning & Control (AEW&C) system for Australia. The \$1 billion program, known as Project Wedgetail, will utilize seven 737-700 aircraft to provide airborne electronic and communications systems for the Australian Defence Force. Boeing has gained significant experience on such systems through 30 years of successfully designing, developing and managing 707 AWACS and 767 AWACS systems and upgrades.

Board of Directors

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Chairman of the Board, President and Chief Executive Officer
Teachers Insurance and Annuity Association – College Retirement Equities Fund
Committees: Compensation,* Governance and Nominating

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Chairman of the Board and Chief Executive Officer
Edison International
Committees: Audit* and Finance

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

Kenneth M. Duberstein
Chairman of the Board and Chief Executive Officer
The Duberstein Group
Committees: Compensation, Governance and Nominating

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Retired Chairman of the Board and Chief Executive Officer
Boise Cascade Corporation
Committees: Compensation, Governance and Nominating*

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Massachusetts Institute of Technology
Committees: Audit and Finance

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Retired Chairman of the Board
McDonnell Douglas Corporation
Committees: Compensation, Governance and Nominating

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Professor in the School of Engineering and Senior Fellow at the Institute for International Studies, Stanford University
Committees: Compensation, Governance and Nominating

Charles M. Pigott
Chairman Emeritus
PACCAR Inc
Committees: Audit and Finance*

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Hewlett-Packard Company
Committees: Audit and Finance

Rozanne L. Ridgway
Former Assistant Secretary of State for Europe and Canada
Committees: Compensation, Governance and Nominating

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

**Committee Chair*

Company Officers

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

Harry C. Stonecipher
President and Chief Operating Officer

James F. Albaugh
Senior Vice President – President, Boeing Space and Communications Group

Douglas G. Bain
Vice President and General Counsel

Theodore J. Collins
Senior Vice President – Law and Contracts

James B. Dagnon
Senior Vice President – People

Christopher W. Hansen
Senior Vice President – Government Relations

Deborah C. Hopkins
Senior Vice President and Chief Financial Officer

James C. Johnson
Vice President, Corporate Secretary and Assistant General Counsel

Laurette T. Koellner
Vice President and Corporate Controller

Alan R. Mulally
Senior Vice President – President, Boeing Commercial Airplanes Group

James F. Palmer
Senior Vice President – President, Boeing Shared Services Group

Michael M. Sears
Senior Vice President – President, Boeing Military Aircraft and Missile Systems Group

Walter E. Skowronski
Vice President of Finance and Treasurer

David O. Swain
Senior Vice President, Engineering and Technology, President of Phantom Works

John D. Warner
Senior Vice President and Chief Administrative Officer

Shareholder Information

The Boeing Company General Offices

The Boeing Company
7755 East Marginal Way South
Seattle, WA 98108
(206) 655-2121

Transfer Agent, Registrar and Dividend Paying Agent

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

EquiServe L. P.
P.O. Box 8040
Boston, MA 02266-8040
(888) 777-0923 (toll-free for domestic U.S. callers)
(781) 575-3400 (non-U.S. callers may call collect)

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

Registered shareholders also have secure Internet access to their accounts through EquiServe's home page (see above website address). They can check account information, view share balances, initiate certain transactions and download a variety of forms related to stock transactions. Initial passwords were sent to registered shareholders with their March 2000 dividends. If you are a registered shareholder and want Internet access but did not receive a password, or have lost your password, please call one of the EquiServe phone numbers shown above.

Annual Meeting

The annual meeting of Boeing shareholders is scheduled to be held on Monday, May 1, 2000. Details of the meeting are provided in the proxy statement. Formal notice of the meeting, proxy statement, form of proxy and annual report were mailed to shareholders beginning March 17, 2000.

Electronic Proxy Receipt and Voting

Shareholders have the option of voting their proxies by Internet or telephone, instead of returning their proxy cards through the mail. Instructions are in the proxy statement and attached to the proxy card for the annual meeting.

Registered shareholders can go to <http://econsent.com/ba> to sign up to receive their annual report and proxy statement in an electronic format in the future. Beneficial owners may contact the brokers or banks that hold their stock to find out whether electronic receipt is available. If you choose electronic receipt, you will not receive the paper form of the annual report and proxy statement. Instead, you will receive notice by e-mail when the materials are available on the Internet.

Written Inquiries May Be Sent To:

| | |
|-----------------------------|---------------------------|
| <i>Shareholder Services</i> | <i>Investor Relations</i> |
| The Boeing Company | The Boeing Company |
| Mail Code 13-08 | Mail Code 10-16 |
| P.O. Box 3707 | P.O. Box 3707 |
| Seattle, WA 98124-2207 | Seattle, WA 98124-2207 |

Company Shareholder Services

Pre-recorded shareholder information and quarterly earnings data are available toll-free from Boeing Shareholder Services at (800) 457-7723. You may also speak to a Boeing Shareholder Services representative at (206) 655-1990 between 8:00 a.m. and 4:30 p.m. Pacific Time.

To Request an Annual Report, Proxy Statement, Form 10-K or Form 10-Q, Contact:

Data Shipping
The Boeing Company
Mail Code 3T-33
P.O. Box 3707
Seattle, WA 98124-2207
or call (425) 393-4964 or (800) 457-7723

Boeing on the World Wide Web

The Boeing home page – <http://www.boeing.com> – is your entry point for viewing the latest Company information about its products and people or for viewing electronic versions of the annual report, proxy statement, Form 10-K or Form 10-Q.

1999 PERFORMANCE HIGHLIGHTS

- ◆ Achieved total shareholder return of 29 percent, compared with 21 percent for the Standard & Poor 500 Index as a whole and compared with an average decrease of more than 15 percent for companies (except Boeing) comprising the S&P Aerospace Index.
- ◆ Ranked 128th out of S&P 500 in return to shareholders, up from 463rd in 1998.
- ◆ Returned commercial airplane production to robust health, delivering a record 620 jetliners with fewer people, less overtime and dramatically improved on-time performance.
- ◆ Met or exceeded all companywide 1999 Value Scorecard goals, improving our overall performance and freeing up capital for growth.
- ◆ Won several strategically important major competitions, while successfully expanding our service businesses – for commercial and military customers – with great potential for future growth.

Founded 84 years ago by William E. Boeing, The Boeing Company is the leading aerospace company in the world, as measured by total revenues. The holder of 5,076 patents, Boeing is the world's largest manufacturer of commercial jetliners and military aircraft and provides related services worldwide. Boeing is also NASA's largest contractor. The company's capabilities and related services include helicopters, electronic and defense systems, missiles, rocket engines, launch systems, and advanced information and communication systems. At year-end 1999, Boeing employed a diverse and skilled workforce of 197,100 people. Along with hundreds of thousands more people employed at approximately 28,800 suppliers worldwide, they provide Boeing products and services to customers in 145 countries.

3 MESSAGE TO SHAREHOLDERS

11 CAPITALIZING ON GROWTH OPPORTUNITIES

28 FINANCIAL REPORT

75 INDEX TO FINANCIAL REPORT

76 SELECTED PRODUCTS AND PROGRAMS

79 BOARD OF DIRECTORS AND COMPANY OFFICERS

80 SHAREHOLDER INFORMATION

Duplicate Shareholder Accounts

Registered shareholders with duplicate accounts may call EquiServe for instructions on consolidating those accounts. The Company recommends that registered shareholders *always use the same form of their names* in all stock transactions to be handled in the same account. Registered shareholders may also ask EquiServe to eliminate excess mailings of annual reports going to shareholders in the same household.

Change of Address

For Boeing registered shareholders:

EquiServe L. P.
P.O. Box 8040
Boston, MA 02266-8040
or call (888) 777-0923

For Boeing beneficial owners:

Contact your brokerage firm or bank to give notice of your change of address.

Stock Exchanges

The Company's common stock is traded principally on the New York Stock Exchange; the trading symbol is BA. Boeing common stock is also listed on the Amsterdam, Brussels, London, Swiss and Tokyo stock exchanges. Additionally, the stock is traded, without being listed, on the Boston, Chicago, Cincinnati, Pacific and Philadelphia exchanges.

General Auditors

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

Equal Opportunity Employer

Boeing is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, color, religion, national origin, gender, sexual orientation, age, disability, or status as a disabled or Vietnam Era Veteran.