The Boeing Company 2000 Annual Report

BOEING®

At the start of 2000, we set three fundamental goals: run healthy core businesses, leverage our core strengths into new products and services, and open new frontiers. We've done this. And we will continue to do this.

At the dawn of a new age – in a competitive as well as a chronological sense – we see two things very clearly. First, we are in a period of intense change and a very demanding business environment. Second, there are whole new worlds of opportunity ahead. We are extremely excited about the future of this company.

During 2000, we expected – and experienced – a decline in commercial airplane production and deliveries. We also faced softness in traditional military and space markets. Even so, Boeing posted all-time record earnings because of the improved efficiency and strong performance in our core businesses. What's more, we set a clear strategic course for our future growth and prosperity.

To win new business and achieve higher earnings, we must reduce cost faster than our competition. Commercial Airplanes, Military Aircraft and Missile Systems, and Space and Communications have shown that they are equal to that challenge. They are all thriving as a result. And there remains a lot of runway for further improvement.

At the same time, we recognize that parts of our traditional businesses are maturing – limiting the potential growth of revenues. That is why we are leveraging our strengths into new products and services that extend the current boundaries of our businesses.

Beyond that, we are drawing on our expertise as an integrator of complex systems. We will expand the boundaries of how aerospace is defined in the minds of people everywhere.

We have the technology and skills to reinvent the airways with a new, more efficient system of air traffic management. We can turn your airplane seat into a virtual office with super-fast Internet access and live TV. We can pierce the fog of the battlefield and enable our warfighters to achieve information dominance in conflicts of the future.

Above left: Philip M. Condit
Chairman and Chief Executive Officer
Above right: Harry C. Stonecipher
President and Chief Operating Officer

Here is our plan for growing The Boeing Company. It covers three periods of time: near, medium and long term. The prime objective is to create converging and ever-increasing streams of value – for customers and shareholders.

Running Healthy Core Businesses

Over the next three to five years, we have an extraordinary opportunity to increase operating margins. We can reach this goal by empowering Boeing people to achieve substantial results.

Boeing has long been known for its many superb engineers, technicians and scientists. Our Leadership Center in St. Louis is multiplying their value by adding business skills to their extraordinary technical skills. We are turning managers into business leaders. Over the past two years, we have put 5,000 managers through intensive courses to hone their business and leadership skills. Every graduate of the center becomes a teacher to others.

We are also putting systems into place to drive detailed financial awareness and discipline deep into the organization – for teams on the shop floor and in the design office. For these teams, precise real-time information about costs, schedules, cycle times, inventories and quality is truly power. It is the power to plan, to innovate and to improve.

Business is also about seizing the initiative. We like the attitude expressed by one of our people, who said her job was "so challenging and exciting" that she couldn't "understand how anyone could have trusted her to do it." We want every single Boeing employee to feel that way. We want them grabbing for responsibility and exercising real business judgment. We want them daring to assume entrepreneurial risk while exercising their proven ability to reduce program risk.

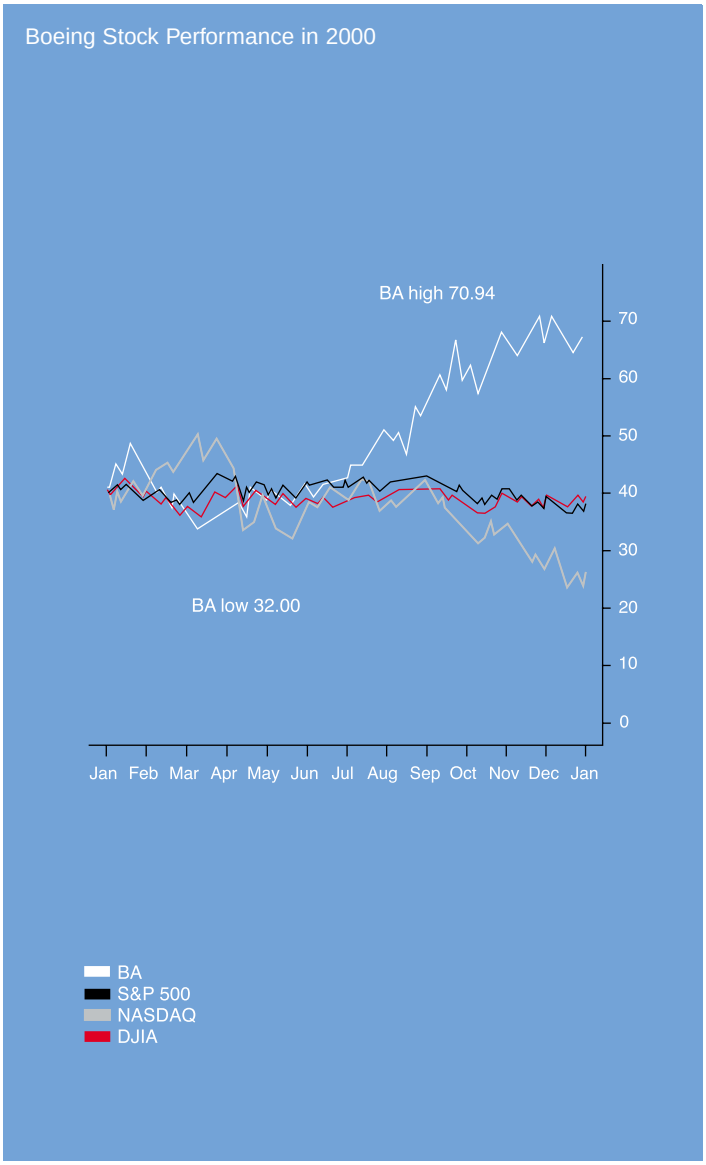
The progress we have made in our business performance – although still not up to our aspirations – gives us great confidence in our future success. Across the company, we are driving toward a goal of double-digit operating margins. And we have a strong, cohesive management team, intensely focused on running our businesses better – finding new ways to reduce assets, increase efficiencies, grow earnings per share, and power future growth. Our core businesses are all progressing well:

Boeing Commercial Airplanes is back on track in every way as the world leader in its field. In recovering from the production difficulties of a little over two years ago, it has made tremendous gains in operating efficiency. That continued in 2000 despite a reduced total production rate. The labor required for assembly of a Boeing 737 has fallen from 30,000 hours to under 10,000. During 2000, we had great success in winning orders for new airliners. As a result, we anticipate two or three years – and perhaps more – of the most stable commercial airplane production in the history of the company. In the latest upturn in the new order cycle, the world's airlines are ordering new airplanes and adding to their fleets at a steady and sustainable rate that allows for 5 percent base growth and another 3 percent for replacement of older airplanes. This is a significant change from the past when orders exceeded sustainable levels. In our view, the world's airlines have made great strides in adjusting to deregulation and open competition. They have learned to run their businesses better. We regard that as a very favorable trend. It plays to our strength in having the most complete family of products in the market, together with having the most efficient airplanes across all market categories for long-range, point-to-point service. We launched four new derivative airplanes in 2000: longer-range Boeing 767-400s, longer-range Boeing 747-400s, and longer-range Boeing 777-200s and -300s. Each of these new airplanes will provide nonstop service to more destinations. Given a choice, passengers will always select the nonstop flight rather than a longer trip through a crowded hub.

With a broad mix of mature, evolving and future-generation programs, Boeing Military Aircraft and Missile Systems thrives on precise execution and close attention to customer needs and priorities. Since the end of the Cold War, the demands

upon the military services of the United States and its allies have grown with multiple deployments, even as budget levels have declined. We put affordability in the forefront of our thinking in everything we do for our military customers. In bringing three disciplines together – program management, engineering management and manufacturing/supplier management – our Joint Strike Fighter team has achieved breakthrough-level success in reducing cost while meeting stringent range, weight and survivability requirements. In this important competition, the Boeing X-32 concept demonstrator aircraft, which flew for the first time in 2000, costs two-thirds less to assemble than the YF-22 and the YF-23. We are also beating cost and schedule goals in the Unmanned Combat Air Vehicle program, which has huge potential for reducing the cost of effective deterrence in both a human and an economic sense.

Boeing Space and Communications is a true powerhouse in the design and construction of space-faring vehicles and in the creation of system-of-systems architectures, which integrate the movement and operations of different platforms – on the ground, in the air and in space. Boeing is the prime contractor for the International Space Station, which was inhabited for the first time in 2000 and which ranks as the largest and most complex scientific project ever attempted on an international cooperative basis. In addition to building some of the main structural elements of the station, we coordinate the work of companies in 16 countries. We also built and help to maintain and operate the Space Shuttle orbiters that ferry astronauts, supplies and hardware to the station. With the acquisition of Hughes Electronics Corporation's space and communications businesses in 2000, we became the world's premier space-based communications company – the leading provider of satellites and satellite-based services. This new role complements and enhances the system-of-systems capabilities that we have developed through our role as prime contractor for the National Missile Defense and other major programs. Owing to its leadership position in some of the world's most exciting scientific and technical programs and to the great depth of intellectual capital that goes along with that, Space and Communications serves a dual purpose



In 2000, Boeing stock appreciation was 59 percent, the second highest in the Dow Jones Industrial Average. When coupled with dividends, Boeing generated a 61 percent total return to shareholders.

inside Boeing. It is a strong core business. At the same time, it also serves as an incubator for high-growth businesses of the future.

Although we have talked about the core businesses as separate entities, there is, in fact, a great deal of interaction and synergy among them. Our Phantom Works advanced research and development group acts as a conduit, enabling good ideas and technologies to go everywhere within the company. It promotes the rapid migration of technical developments, lessons learned and people from one program to another and from one business to another.

The core Boeing businesses are clearly doing one of the things that core businesses are supposed to do. They are generating a lot of cash – several billion dollars a year of free cash flow. This gives us a lot of options to maximize shareholder value. In 2000, we repurchased $2.357 billion of our own shares and reinvested in future growth through internal development and strategic acquisitions.

Leveraging Our Strengths

Airplane services are a huge market – even bigger than new airplane sales. Our expansion into services capitalizes on two assets not listed on any balance sheet – our intellectual capital and the power of a great global brand. Around the world, people know our products, and they know who built them. We don't have to say, "Boeing Outside," although that is what we are for over 800 airlines and their passengers worldwide. There is a wealth of detailed information and knowledge in the minds of our people. We intend to make better and better use of that wealth, as we move up the value chain and develop new and closer relationships with our customers.

Although we have built more than 80 percent of the world's fleet of commercial airplanes and more than 60 percent of airborne U.S. government platforms, our primary goal goes beyond the sale of new airplanes. It is to deliver the greatest value and flexibility to our customers in every possible situation. In addition to providing the widest choice of new airplanes, we are partnering with our customers to achieve increased utilization, prolonged service and better management of their existing assets.

Commercial Aviation Services and Military Aerospace Support provide proactive, value-adding services and solutions. Solutions include airplane monitoring, predictive maintenance, timely insertion of new avionics and other technology, major modifications, training of pilots and mechanics, fleet management and other services. With two strategic acquisitions, we greatly augmented our ability to meet detailed customer requirements across the entire range of commercial flight operations. Continental Graphics brings comprehensive skills in providing customized and specialized maintenance information services to the airline industry. Jeppesen Sanderson Inc. is the clear leader in commercial in-flight information services, which include navigation data and computerized flight planning. Military services already provide 25 percent of Aircraft and Missiles' total revenues.

Through Boeing Capital Corporation, we are expanding innovative financing solutions to customers across all our lines of business and to commercial finance customers outside the aerospace industry. We are leveraging both our intellectual and our financial strength to provide fast, one-stop solutions to meet an assortment of needs. We have gone out and bought older airplanes, made major modifications, leased them back to the customer and contracted to provide ongoing maintenance and support.

In independent surveys about the intelligent use of information technology, Boeing is consistently ranked as one of the long-established companies that truly "gets it." Indeed, we regard expertise in this area as critical to all facets of our business – from lean design and manufacture through the timely delivery of services. In 2000, we teamed up with three other aerospace companies to start Exostar, an Internet-based marketplace where commercial and military aerospace products, parts and supplies worth billions of dollars will be bought and sold. This exchange will allow suppliers and customers to move from just-in-case to just-in-time in stocking many parts.

Opening New Frontiers

We can transform the future of flight. No longer does it have to be just about speeding from one place to another. It must also be about making the most productive and intelligent use of critical assets – airplanes, airports and, most especially, people.

We created two brand-new businesses in 2000. Connexion by Boeing℠ is a global, mobile service that uses a Boeing-patented phased-array antenna and global satellite technology. Through this service, you will soon be able to log on to a new, two-way broadband Internet connection from your airplane seat. You will be able to surf the Web, send and receive e-mail, watch live TV, trade stock and access your company's intranet, all while cruising at 39,000 feet above the Earth and at close to the speed of sound. Connexion by Boeing will make the airplane seem more like the office or home. You may even experience the sensation of arriving "too soon" – having to abandon your workstation because your plane has reached its destination. Connexion by Boeing complements the trend, mentioned earlier, toward longer-range, point-to-point service, geared to business travelers. It will make long-distance air travel productive and enjoyable.

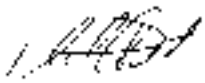
We also created Boeing Air Traffic Management. This unit was created to pursue the huge opportunity for modernizing the management of air traffic. Today's ground-based system is an outgrowth of the bonfire-lighted beacon system used to guide airplanes from the early days of flight. Although antennas have replaced bonfires on the mountaintops, the present system lacks a true bird's-eye view of where everything is. As a result, planes are forced to stay in strictly defined traffic lanes – some forced to stay low in turbulence because of planes above them, others limited in their ability to pass slower-moving planes, and most prevented from taking the shortest route to their destination. With a space-based system, it would be possible to be far more accurate and efficient in guiding airplanes to their destinations. We do not have to suffer from global "hub lock" or growing congestion in a few major international airports where most planes are in transit to other destinations. We can put more planes in the air with increased safety, with fewer delays and frustrations for airlines and passengers alike, and with many more nonstop flights.

In the defense arena, we are heavily engaged in a variety of programs that are similarly geared to using the ultimate high ground of space to observe everything that moves below and to mastermind both traffic and communication. With our growing expertise in system-of-systems technology, we will provide a higher level of integration for all kinds of platforms, including many of those that we have built. We will deliver not just air superiority, but also information dominance to our warfighters.

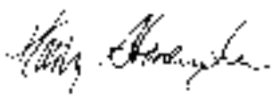
In 2000, we set up the Chairman's Innovation Initiative – a $200-million in-house venture capital fund – to encourage people to come forward with new ideas for starting businesses so that the stream of new businesses is endless.

It is, indeed, the dawn of a new age in aerospace. We like where we are. And we love where we are going. We have great products, great customers and rich reserves of information, knowledge and talent. On top of that, we have an exciting round-the-world and out-of-this-world flight plan. All the elements are in place for this company to soar.

Forever New Frontiers,



Philip M. Condit
Chairman and
Chief Executive Officer



Harry C. Stonecipher
President and
Chief Operating Officer

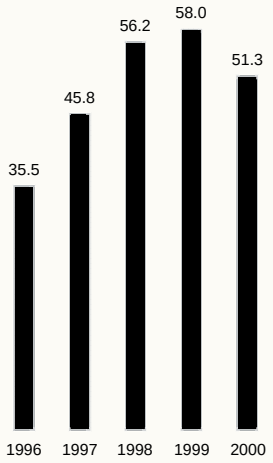
From left to right:
David O. Swain, Senior Vice President – Engineering and Technology; President – Phantom Works • Scott E. Carson, Senior Vice President; President – Connexion by Boeing • Thomas R. Pickering, Senior Vice President – International Relations • Judith A. Muhlberg, Vice President – Communications • Gerald E. Daniels, Senior Vice President; President – Military Aircraft and Missile Systems • John B. Hayhurst, Senior Vice President; President – Air Traffic Management • James F. Albaugh, Senior Vice President; President – Space and Communications • Douglas G. Bain, Senior Vice President and General Counsel • Michael M. Sears, Senior Vice President and Chief Financial Officer • Walter E. Skowronski, Vice President – Finance and Treasurer • Christopher W. Hansen, Senior Vice President – Government Relations • Laurette T. Koellner, Senior Vice President; President – Shared Services • John D. Warner, Senior Vice President and Chief Administrative Officer • James B. Dagnon, Senior Vice President – People • James A. Bell, Vice President – Finance and Controller • James C. Johnson, Vice President, Corporate Secretary and Assistant General Counsel • Alan R. Mulally, Senior Vice President; President – Commercial Airplanes • James F. Palmer, Senior Vice President; President – Boeing Capital Corporation

Financial Highlights

(Dollars in millions except per share data)	2000	1999	1998	1997	1996
Sales and Other Operating Revenues	51,321	57,993	56,154	45,800	35,453
Net Earnings (Loss)	2,128	2,309	1,120	(178)	1,818
Earnings (Loss) per Share	2.44	2.49	1.15	(0.18)	1.85
Net Earnings (Loss) Excluding Nonrecurring Items	2,513	2,197	1,329	(178)	1,818
Earnings (Loss) per Share Excluding Nonrecurring Items	2.88	2.37	1.36	(0.18)	1.85
Free Cash Flow	4,910	4,809	300	560	3,514
Contractual Backlog	120,600	99,248	112,896	121,640	114,173
Research and Development	1,441	1,341	1,895	1,924	1,633
Capital Expenditures, Net	932	1,236	1,665	1,391	971
Cash and Short-Term Investments	1,010	3,454	2,462	5,149	6,352
Customer and Commercial Financing Assets	6,959	6,004	5,711	4,600	3,888
Total Debt	8,799	6,732	6,972	6,854	7,489
Cash Dividends	504	537	564	557	480

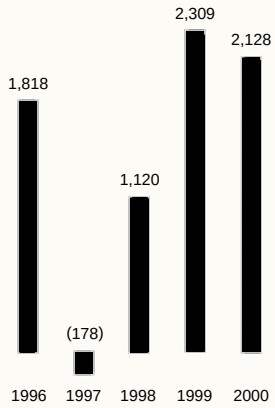
Sales and Other Operating Revenues

dollars in billions



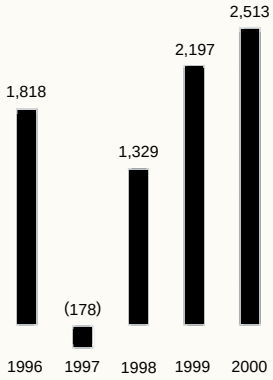
Net Earnings

dollars in millions



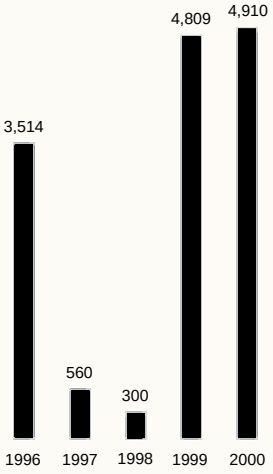
Net Earnings (Excluding Nonrecurring Items)

dollars in millions



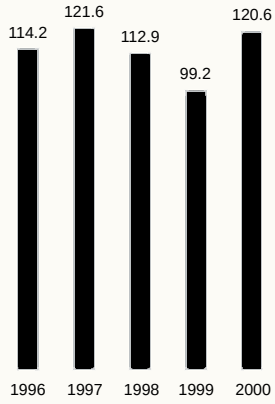
Free Cash Flow

dollars in millions



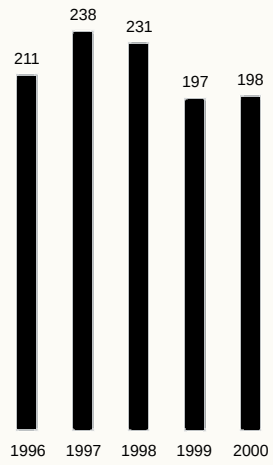
Contractual Backlog

dollars in billions



Year-end Workforce

in thousands



Imagine.

The company completes construction of its first product, the B&W, named after William Boeing and a fellow aviation enthusiast, G. Conrad Westervelt. 1916.

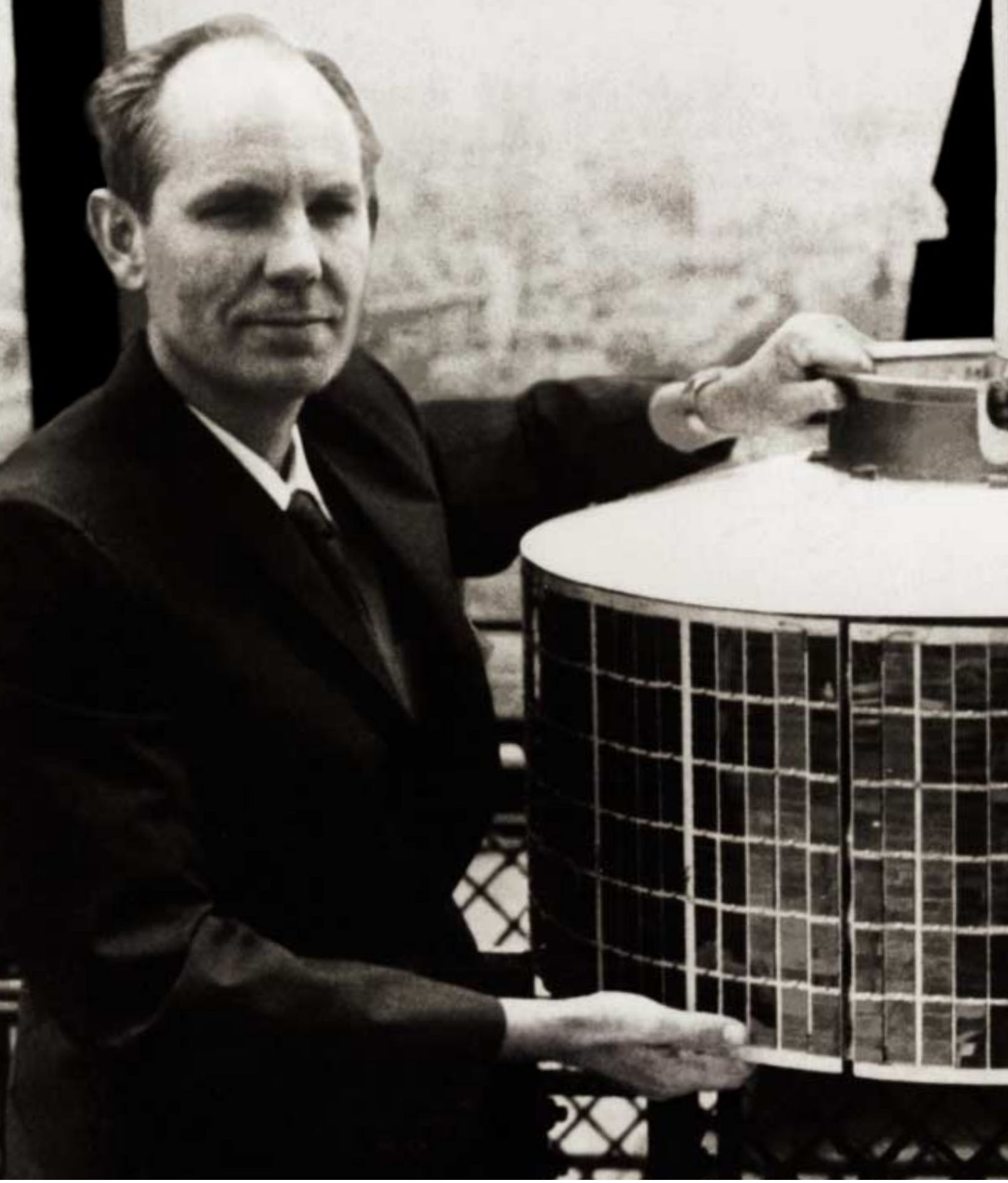
A plane that floats.

At the peak of B-17 production during World War II, 34,000 Boeing workers produce a Flying Fortress every 1.3 hours. Boeing employees celebrate the completion of the 5,000th B-17 built in Seattle since the bombing in Pearl Harbor. 1944.

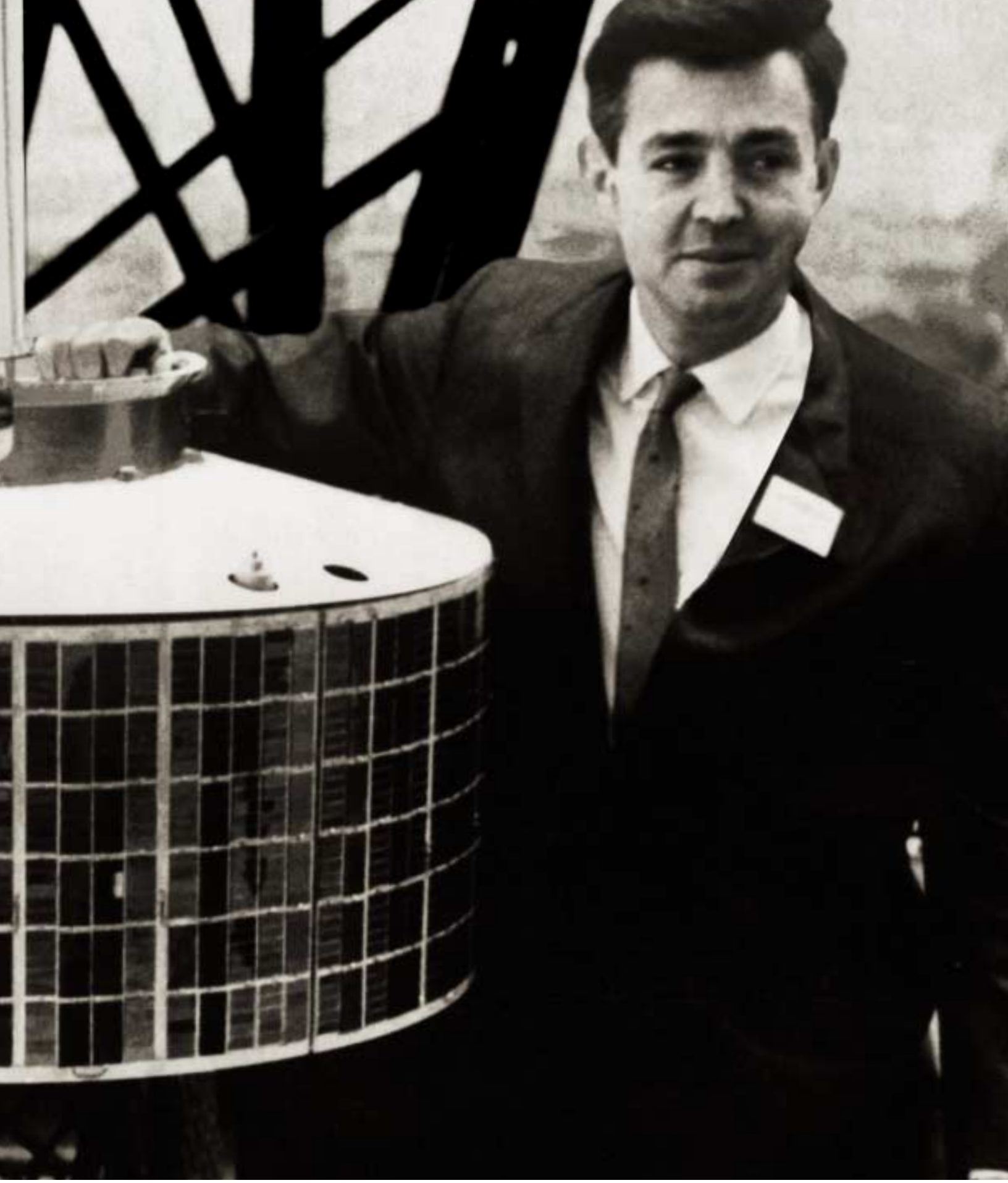
Manufacturing 16 Flying Fortresses a day.

We launch the U.S. Space Program. The seven original Mercury astronauts capture our imagination and become the most celebrated pilots of their time. 1962.

Pilots who fly in space.



Boeing Satellite Systems revolutionizes the communications industry with the launch of Syncom, the world's first geosynchronous communications satellite. 1963.



Communicating via satellite.

The original F/A-18 debuts as the first digital tactical aircraft, as well as the first strike fighter – an aircraft capable of performing a full spectrum of both air-to-air and air-to-surface missions. Military customers are able to cut their costs by operating a single type of multimission aircraft instead of several types of single-mission aircraft. 1978.

A single type of aircraft performing the roles of many.

The 737 makes air travel available to more people than any other airplane. After entering commercial service in 1968, 737s carry the equivalent of the world's population – about 6.1 billion passengers.

Air transport for everyone.

Research performed in space on the orbiting International Space Station promises to benefit life 220 miles below on Earth. 2000.

A laboratory in the sky.

Passengers on moving platforms – including airplanes traveling 500 miles per hour – access the Internet, e-mail and live television, changing the travel experience forever. 2001.

An office in the sky.

The Boeing Unmanned Combat Air Vehicle offers the promise of revolutionary tactical air power. 2000.

An aircraft without a pilot.

Boeing has always been at the forefront of discovery. Today, we are 100 percent committed to outstanding business performance in 2000, making tremendous gains in operating efficiency and of airplanes and giving our airline customers added flexibility to fly point-to-point.

continuing the success of the company's core businesses. Commercial Airplanes demonstrated profitable growth. New longer-range airplanes were launched, further enhancing our efficient family

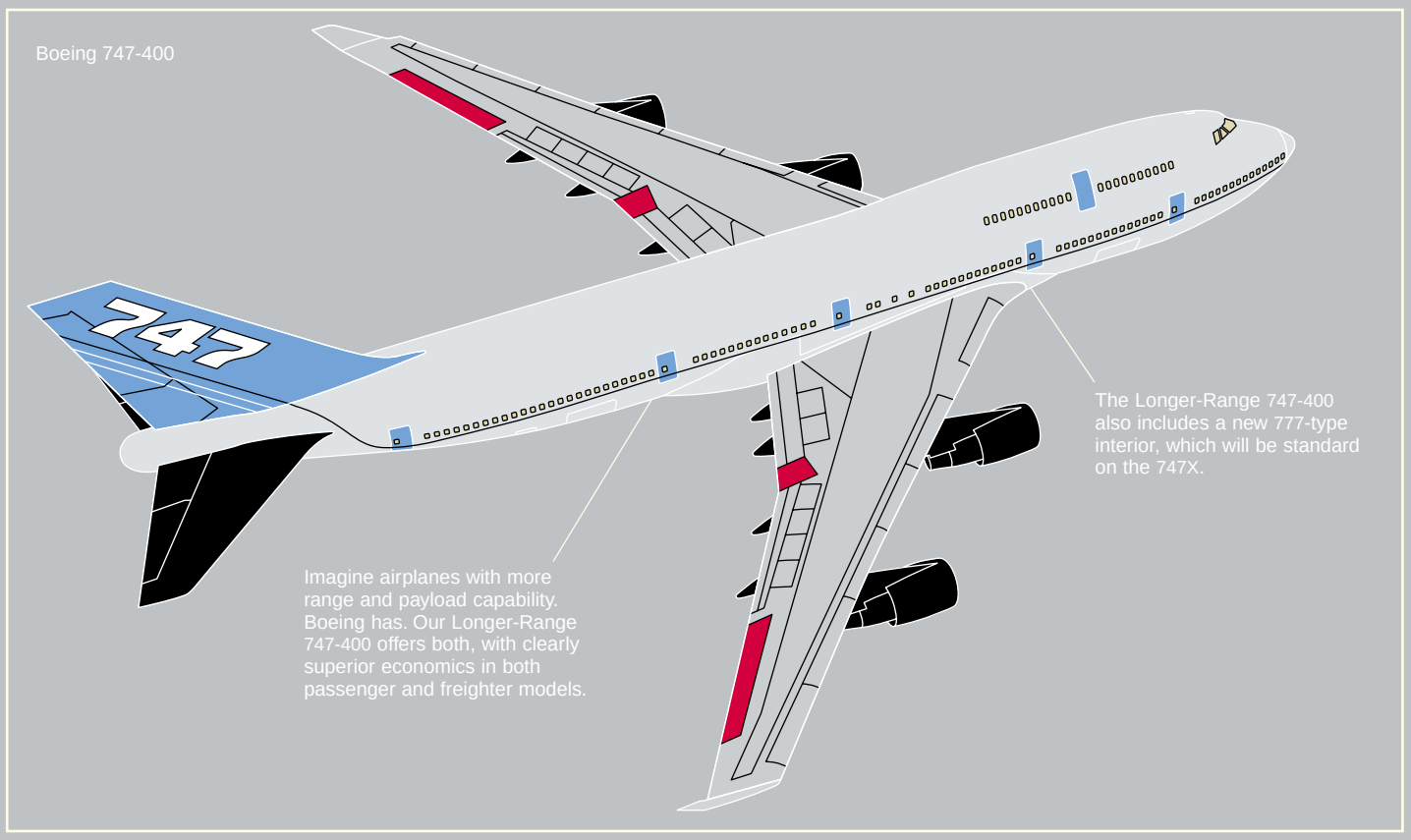
Commercial Airplanes

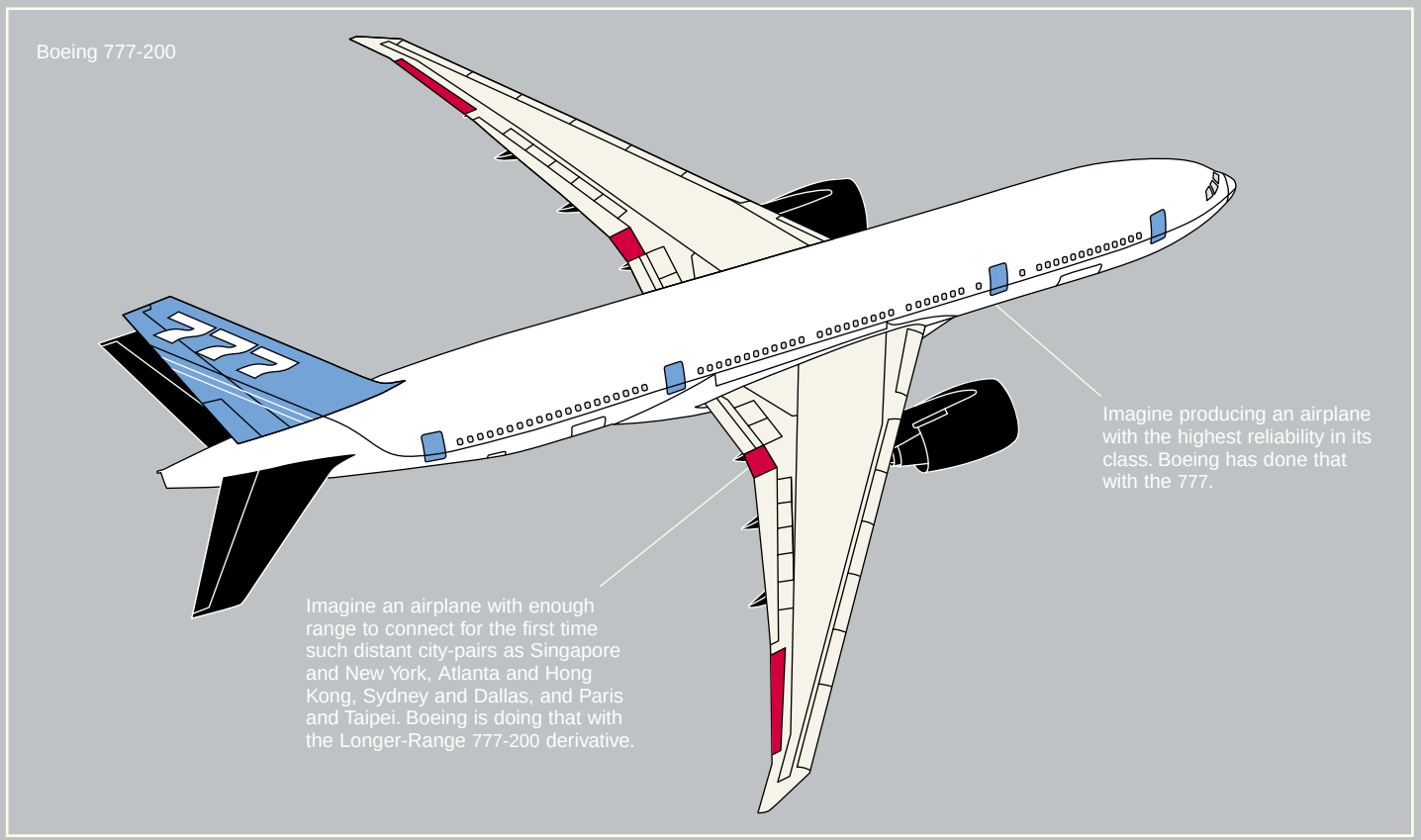
We work continuously to streamline our processes, from order through delivery and customer support.

Solutions in flight.

Improved production processes and increased order activity. Our principal focus is on meeting customer commitments. After recovering from a 40-day engineering and technical workers' strike, we were back on track in 2000, delivering 489 airplanes. We also gathered 611 orders for new airplanes, raising our total orders to 1,612 and our commercial backlog for airplanes and aviation services to $89.8 billion.

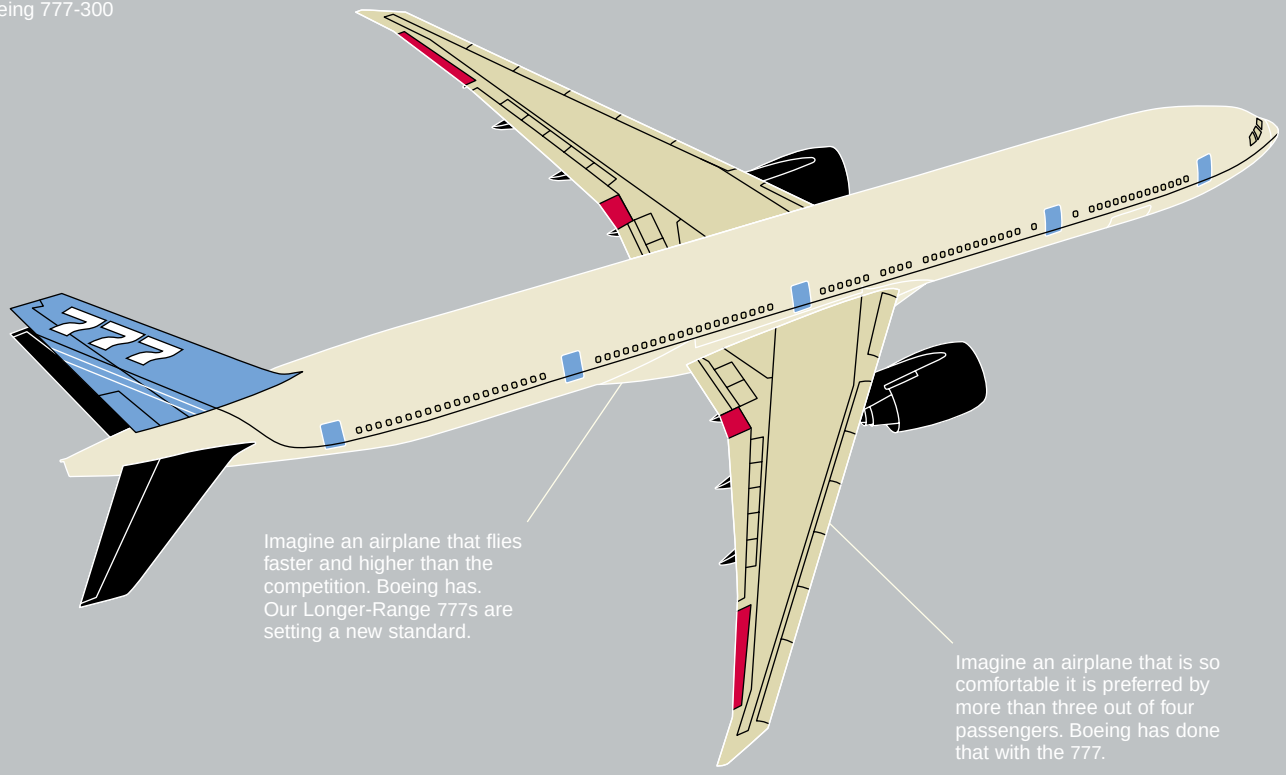
To reduce the cost of our products, we have improved our production processes to shorten the flow from order to delivery and maximize the use of our assets. We made good progress in lean production, including the institution of a moving final assembly line in Long Beach, Calif., for our 717. We also are forging new partnerships with our suppliers around the world, so that we receive fewer, simpler parts that go together more easily and with even higher quality. Our focus on providing solutions for customers includes making the process of buying an airplane more efficient. We have computerized airplane configuration, shortening a process that once took weeks to a matter of days. We also are focusing our options catalogs on features that customers really want, making their choices simpler and easier. In the end, that means a more efficient build process for us as well. We further expanded our family of airplanes, the most complete and capable ever built. We launched four new derivative airplanes – a longer-range 767-400, with a new 777-style interior; a longer-range 747-400, an elegant solution to the limited market for very large airplanes; and two longer-range derivatives of the 777, the airplane consistently preferred by travelers. These new airplanes will give airlines further flexibility to offer point-to-point service between more cities, an advantage for passengers who prefer direct flights over flying to hubs. Our Boeing Business Jet is increasingly recognized around the world by executives and private individuals as a comfortable, productive business tool. Outpacing our expectations, the BBJ had 71 orders and commitments at the end of 2000. In addition, a partnership between Boeing Business Jets and Executive Jet provides access to the BBJ for individuals and corporations who have a requirement for a large, long-range business airplane but who cannot justify the cost of owning the entire business jet. Financing for the core fleet of four BBJ aircraft in the partnership was arranged by Boeing Capital Corporation.





Longer-range airplanes. Passengers say they prefer the convenience of nonstop, point-to-point travel. Our family of airplanes, which was enhanced in 2000 by the launch of several new long-range derivatives, provides customer-focused solutions for the long-range market.

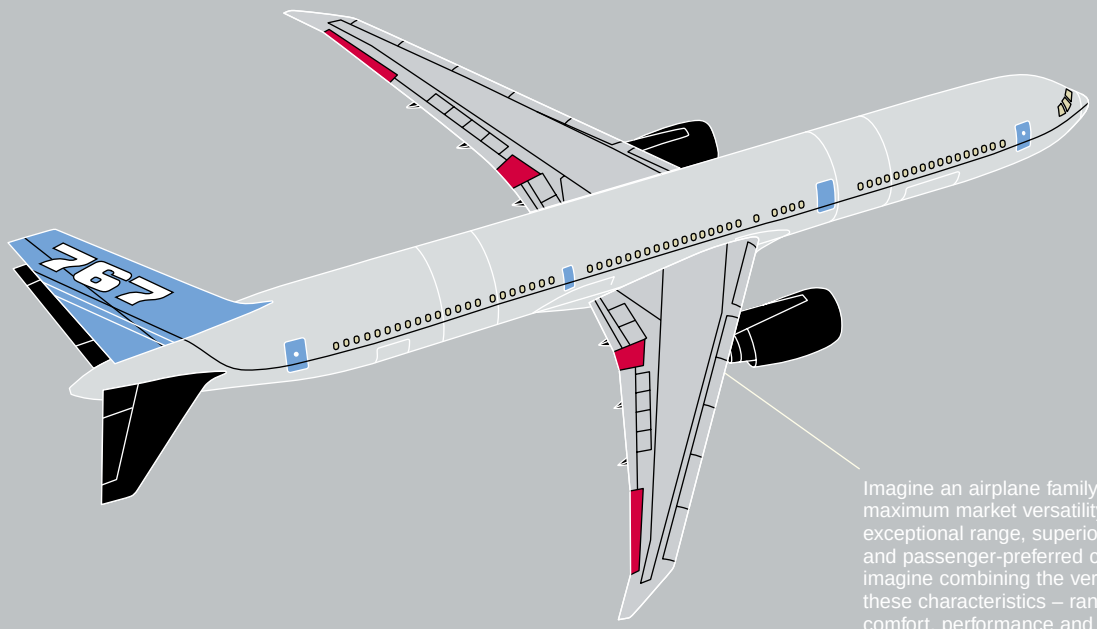
Boeing 777-300



Imagine an airplane that flies faster and higher than the competition. Boeing has. Our Longer-Range 777s are setting a new standard.

Imagine an airplane that is so comfortable it is preferred by more than three out of four passengers. Boeing has done that with the 777.

Boeing 767-400ER



Imagine an airplane family that offers maximum market versatility with exceptional range, superior economics and passenger-preferred comfort. Now imagine combining the very best of all these characteristics – range, capacity, comfort, performance and economics – into one new airplane. Boeing has done it with the Longer-Range 767-400ER.

Our Military Aircraft and Missile Systems business continues to perform solidly, consistently and an $8.9 billion multiyear contract with the U.S. Navy for F/A-18E/F aircraft, and we won the first

innovatively. Our X-32A Joint Strike Fighter concept demonstrator entered flight testing, we signed international order for the C-17 transport.

Military Aircraft and Missile Systems

Boeing manages a strong mix of defense programs in various stages of growth. The F/A-18E/F Super Hornet, for example, has just entered full-rate production; it faces a stable future strengthened by a multiyear contract that the U.S. Navy signed in 2000. Thanks to the company's depth and breadth, Boeing is able to identify, apply, fine-tune and re-employ best practices across a wide range of programs. The ultimate winners: our shareholders, our customers and our employees.

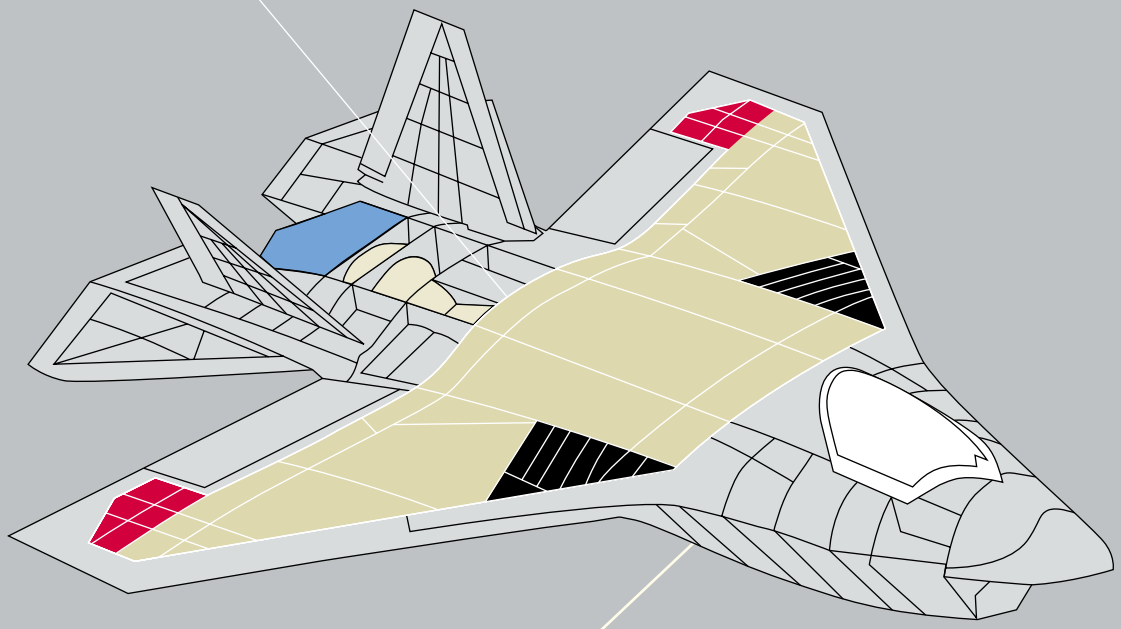
A premier portfolio of programs.

More capability at less cost. Today, defense forces must modernize and maintain their readiness under strict budget constraints and heavy day-to-day workloads. Military customers want partners who understand their requirements and can help fulfill them affordably. As a result, Boeing is as intensely focused on business performance as we are on product performance – we generate value by managing our business well and helping our customers do the same.

A case in point: our Joint Strike Fighter program. Although our JSF will be significantly more capable than the several aircraft it is intended to replace, our two concept-demonstration aircraft cost about two-thirds less to assemble than comparable aircraft at the same stage of their development. We are able to generate improvements of this magnitude by applying innovative JSF design and manufacturing solutions seasoned with advances proven on other programs, including the F/A-18E/F Super Hornet strike fighter, the C-17 Globemaster III military cargo transport and the 777 commercial airliner – each of which has won the coveted Collier Trophy for aeronautical excellence in recent years. And, in turn, we're folding the best JSF practices back into other Boeing products. Ultimately, the biggest winner of the JSF competition will be our military customers, who will benefit from revolutionary approaches to design, production and support. ■ Boeing sustains and constantly renews its defense business through solid program management, a broad spectrum of new-through-mature military products, an unwavering focus on customer needs, and a unique propensity to draw on expertise across business units. For example, in anticipation of a networked military world, several Boeing organizations are collaborating to integrate and enable a system-of-systems solution that will use information networks to collect, interpret and relay data to and from many platforms – from space-based assets and surveillance aircraft to unmanned air vehicles and precision-strike weapons. The objective is rapid relay of key information necessary for U.S. and allied forces to prevail in conflict quickly, accurately and with a minimum of casualties.

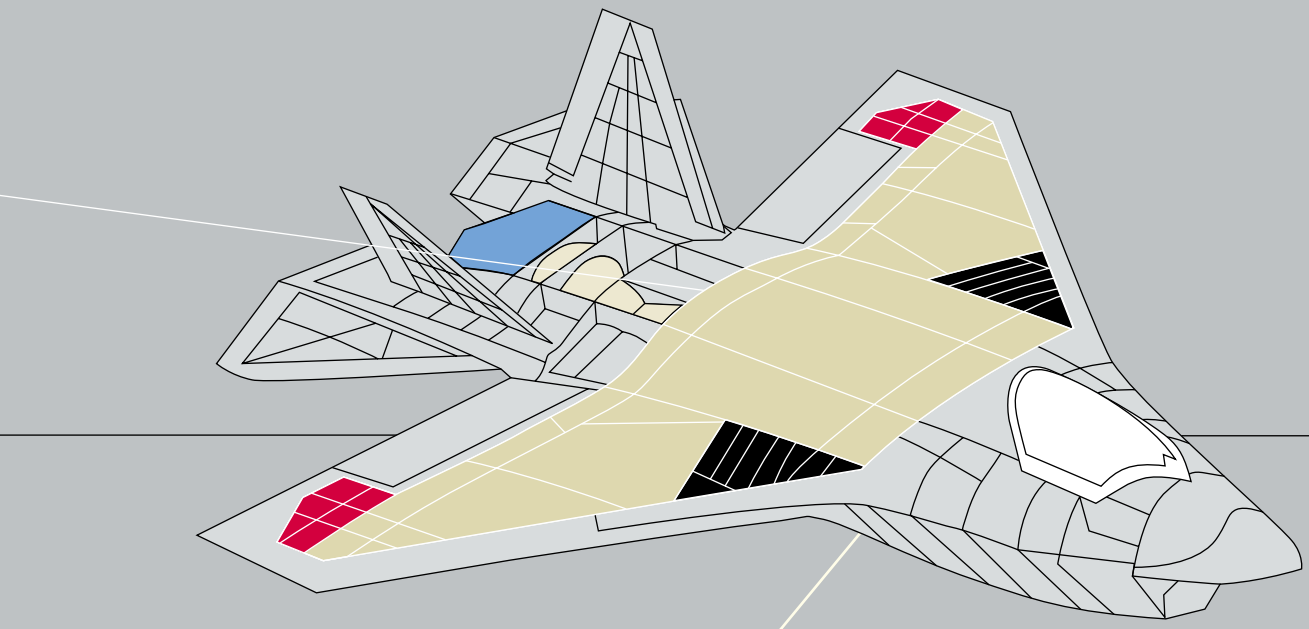
Imagine creating more capable yet more affordable tactical aircraft for budget-conscious defense forces. The Boeing JSF solution has 70 to 90 percent commonality of parts among the three aircraft variants. Consider the wing: It is a model of simplicity — a single-piece composite structure, common to all multiservice variants. It saves weight and simplifies assembly. The wing provides an affordable solution without sacrificing performance. With an in-flight, 2-D thrust vectoring nozzle, the aircraft has superior agility in all maneuvering regimes.

Imagine reducing design cycle time by 50 percent, assembly hours by 60 percent and tools by almost 90 percent. Boeing has done this.



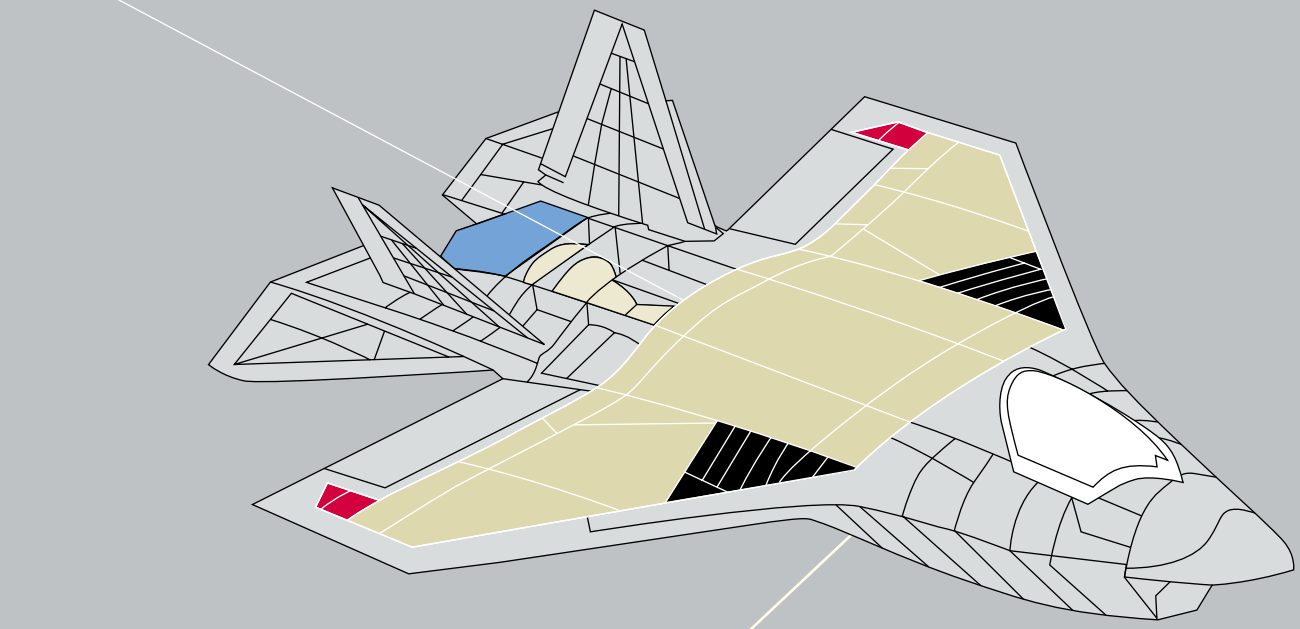
Conventional-takeoff-and-landing version

Multimission preeminence. Innovation – seasoned with experience gleaned from the combat-proven performance of current front-line tactical platforms – will enable Boeing to produce its next-generation Joint Strike Fighter significantly faster, better and more affordably than any other new aircraft the company has manufactured.



Carrier version

Imagine creating a more lethal and survivable fighter aircraft for its pilots. Boeing has.



Short-takeoff-and-
vertical-landing version

Space and Communications grew significantly in 2000, capturing close to $12 billion in orders and Missile Defense and commercial and government satellites, and we are a strong participant in the

accumulating an unprecedented backlog. We are market leaders in human space flight, National launch business.

Space and Communications

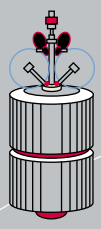
Launch services, such as those provided by the Delta II, are an example of the healthy, stable Space and Communications core business base serving government and commercial customers.

Building dreams.

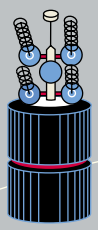
A healthy base from which to develop new technologies and markets. The acquisition of the former Hughes Space and Communications Company and related operations in October made Boeing the world leader in satellite communications. It also supports our move into new information and communications services that address market demand for assured two-way broadband information and integrated systems solutions.

As NASA's largest contractor, Boeing plays an important role in maintaining a continuing human presence in space. Successful on-orbit assembly of International Space Station modules led to occupancy in October. Boeing continued safe operation of the Shuttle fleet and is working to develop key technologies for significantly lower-cost, next-generation manned space vehicles. We addressed the technical issues encountered on Delta III and successfully returned to flight with a payload simulator that was launched from Cape Canaveral on August 23. Our Delta IV team completed critical testing of the Rocketdyne RS-68 engine, leading to the static fire test of the common booster core in early 2001 and first launch in 2002. When Delta IV comes on line, it will reduce launch service costs per pound to orbit by as much as 50 percent. And there is continuing demand for our reliable Delta II family of launch vehicles and Sea Launch. In the defense realm, we are also helping to develop important new programs to keep the world safe. The organization that designed the first Global Positioning System satellites is now the prime contractor for the National Missile Defense program and primary architect for the National Reconnaissance Office's Future Imagery Architecture. Of all the strengths our Space and Communications group brings to the table, perhaps the greatest are its large-scale systems integration expertise and its tremendous intellectual capital. Our people include world-renowned rocket scientists, engineers and managers, technicians and innovators with an astounding reservoir of talent and proven accomplishment. We believe that ideas are worth more than fixed assets. Backed by a 50-year heritage of space-related high-technology achievements, we have proved that, if something can be dreamed, it can be built. By applying our talents and intellectual capital to designing cost-effective solutions, we will provide our customers with unparalleled quality and value far into the future.

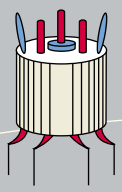
Imagine a safer world. Boeing has. We are a major provider of space systems, satellites and payloads for the U.S. Department of Defense.



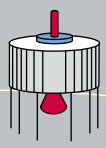
Intelsat IV
1971



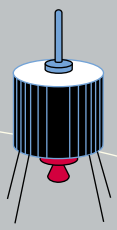
TACSAT
1969



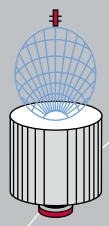
ATS
1966



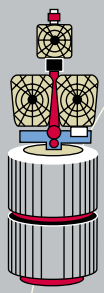
Intelsat II
1966



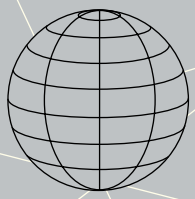
Intelsat I (Early Bird)
1965

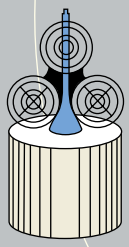


Anik A
1972

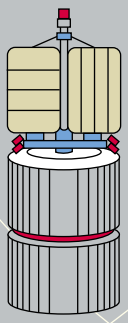


Intelsat IVA
1975

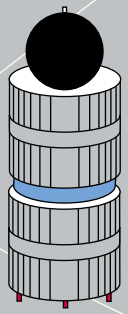




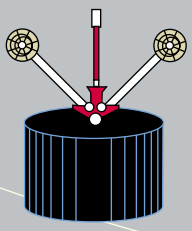
Marisat
1976



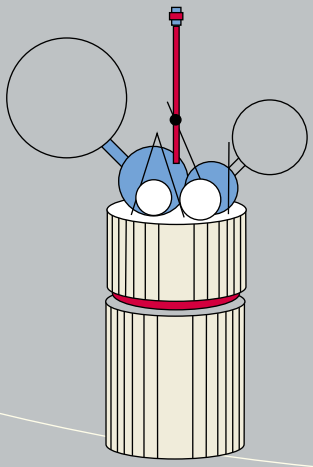
Comstar
1976



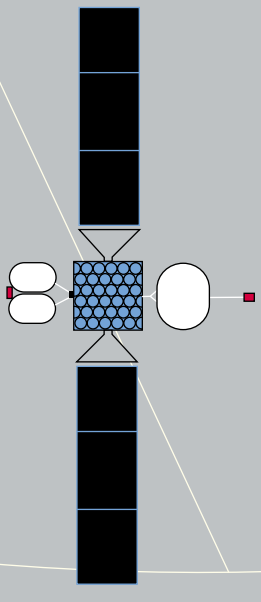
Boeing 376
1980



Leasat
1984



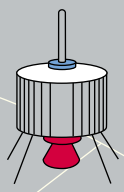
Intelsat
1989



Boeing 601
1992

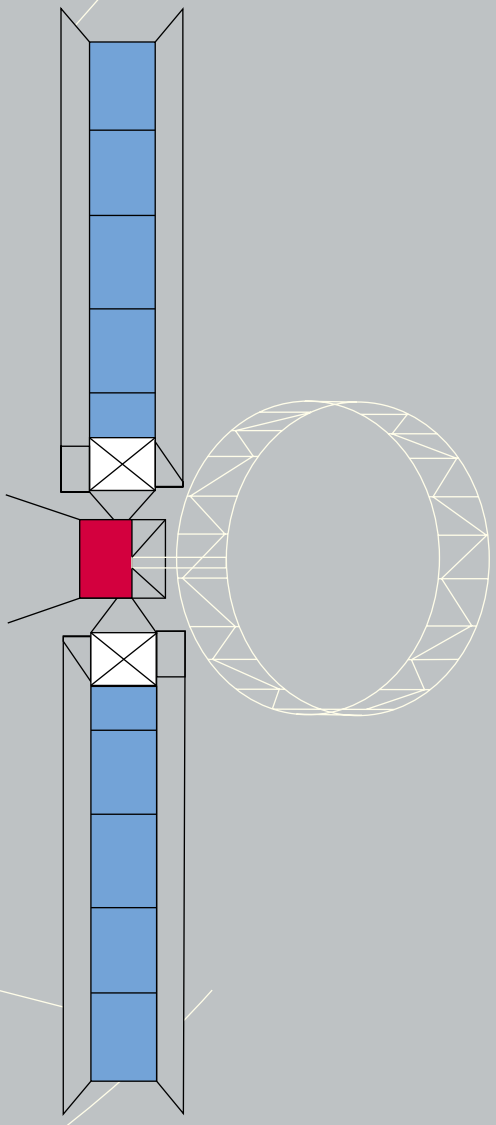
System flexibility and versatility. With involvement in everything from operating the Space Shuttle and building the International Space Station to overseeing our nation's missile defense and reconnaissance systems and creating new satellite-based information and communications services, Boeing is setting the standard in space and communications.

Imagine new technologies that enable exciting marketing breakthroughs. Boeing has. We have been a leading satellite provider. No other company has built and launched as many satellites, or made as many technical revolutions.

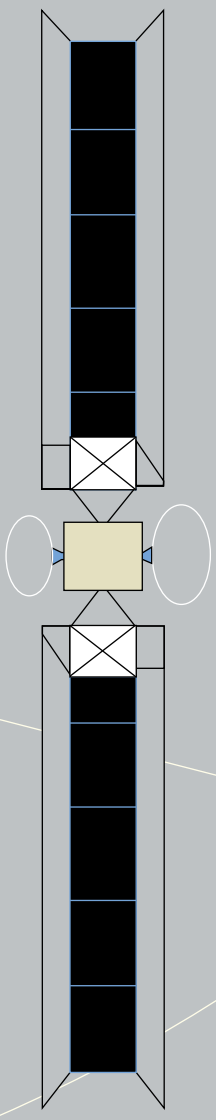


Syncom
1963

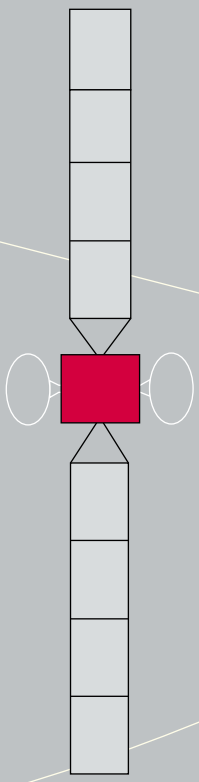
Imagine a healthier world. Boeing has. We are deeply involved in environmental observation and research to benefit life on our small planet and to help us better understand our vast universe.



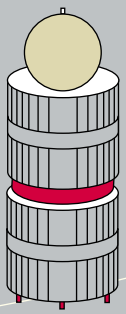
Boeing GEM
2000



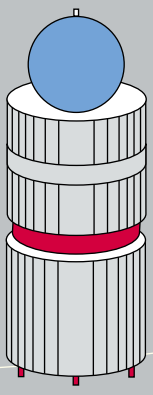
Boeing 702
1999



Boeing 601HP
1997



Boeing 376HP
1996



Boeing 376W
1994

Imagine instantaneous communication with anyone. Boeing has. Our satellite systems have been compared to the printing press as a force for freedom of thought – but faster and far more universal.

While we performed strongly in our core business areas, we looked ahead for new growth opportunities our intellectual power. Applying sound business decision making to new ideas will help us return

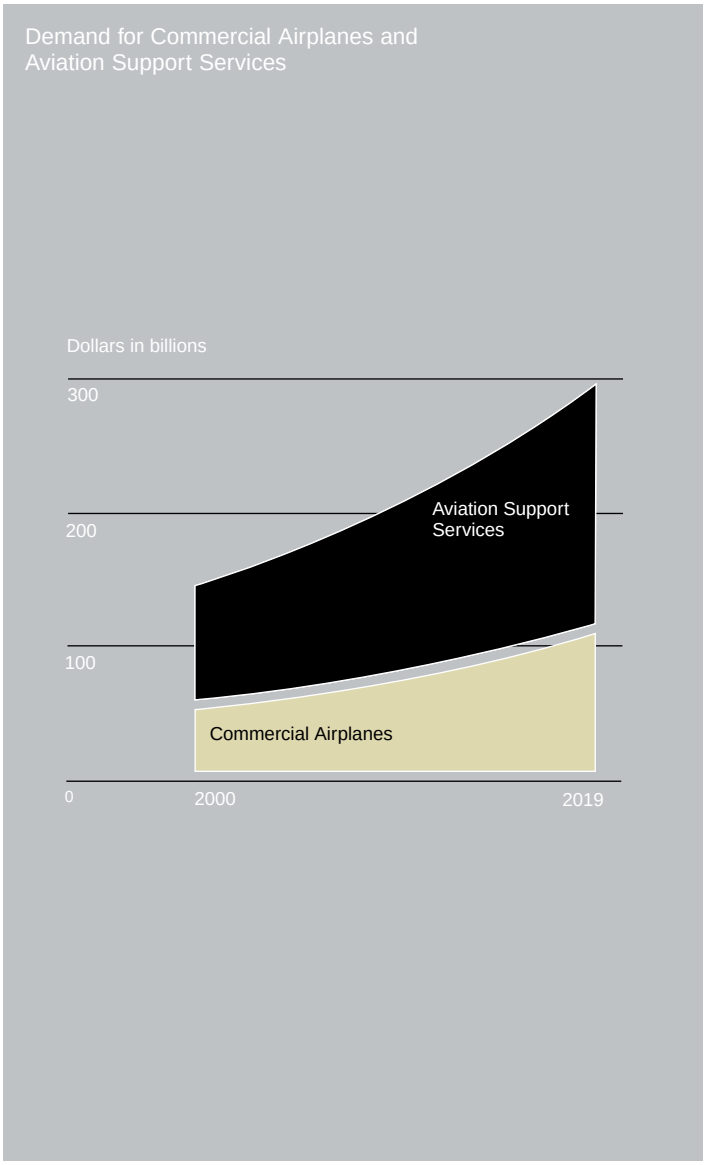
that will leverage our strengths into new products and services and open new frontiers by unleashing even greater value to our customers and shareholders in the future.

Leveraging Core Strengths

Our customers are adapting to a rapidly changing world and a global market economy. This is giving us opportunities to leverage our core strengths – especially our detailed customer knowledge and systems integration expertise – to provide them with new products and services.

Commercial Aviation Services. Many commercial airline customers wish to concentrate on their core businesses and are looking to others for commercial aviation support services. With more than 11,000 Boeing airplanes in service today, this is an opportunity for us. The maintenance and modification market is worth close to $90 billion annually, and our current share is 4 percent – leaving us lots of room for growth. One example of our new activity is our conversion of passenger airplanes to special freighter configurations for DHL and UPS. In addition, we made several important acquisitions in 2000, including Jeppesen Sanderson Inc., the world's leading provider of flight information services. We offer unsurpassed technical support, engineering, modification and logistics management services, as well as training for maintenance and flight crews. We launched MyBoeingFleet.com in 2000, a secure e-business site on the Internet, which provides a single source of online maintenance, engineering and flight operations data. MyBoeingFleet.com contains 79,000 maintenance documents, airplane flight manuals, 5.6 million engineering and tooling drawings, and access to the Boeing Web-based spare parts ordering system, the PART Page.

Military Aerospace Support. In 2000, this business generated about $3 billion in revenue, about 25 percent of the Military Aircraft and Missile Systems business unit revenue. That amount is expected to triple within 10 years. Our push into services is a powerful way of helping our defense customers become more cost effective and mission effective. Our military customers must maintain some of the most massive – and aging – inventories in the world. The opportunity for improvement in these areas is enormous. By combining our product knowledge with the intelligent use of new processes and information technology, we are providing our customers with a range of cost-effective, real-time solutions for modernization and maintenance, support engineering, aviation information,

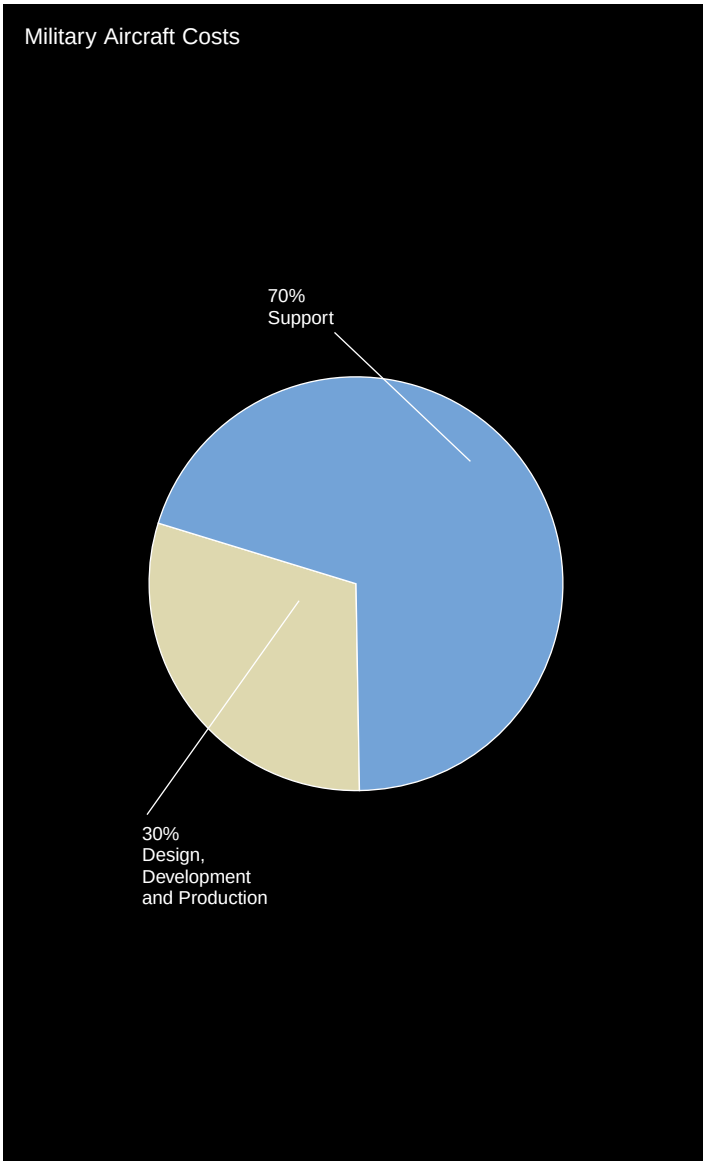


Demand for Commercial Airplanes and Aviation Support Services. The world market for support products and services has grown larger than the market for new commercial jets.

fleet management, training and spares issues. Ultimately, we help our customers lower their total ownership costs and improve their readiness.

Space and Communications Systems Integration. We are leveraging our expertise from programs such as Airborne Warning and Control System (AWACS) and Global Positioning System to provide integrated air and ground systems for battle management. The 737 Airborne Early Warning and Control (AEW&C) system expands the AWACS family to include a high-performance, lower-cost system with very low life-cycle and operating costs. In 2000, we signed agreements with the governments of Turkey and Australia worth $2.5 billion to provide 737 AEW&C aircraft, plus ground support for mission crew training, mission support and system modification support.

Boeing Capital Corporation. An asset-based leasing and lending organization, Boeing Capital Corporation manages a portfolio of more than $6 billion in assets, an amount that could grow significantly in the next five years. For more than 30 years, it has been a worldwide provider of lease and loan financing for a wide range of commercial equipment and all types of commercial aircraft and business aircraft. During the past two years, it has played a key role in arranging several significant airline financing and services packages for the company. We want to expand such innovative financing solutions to customers across all our lines of business. This is a fast-growing, high-opportunity business area, with the potential to add significant value for shareholders. In recognition of this, we recently elevated Boeing Capital Corporation's position in the company, making it a full-fledged operating group.



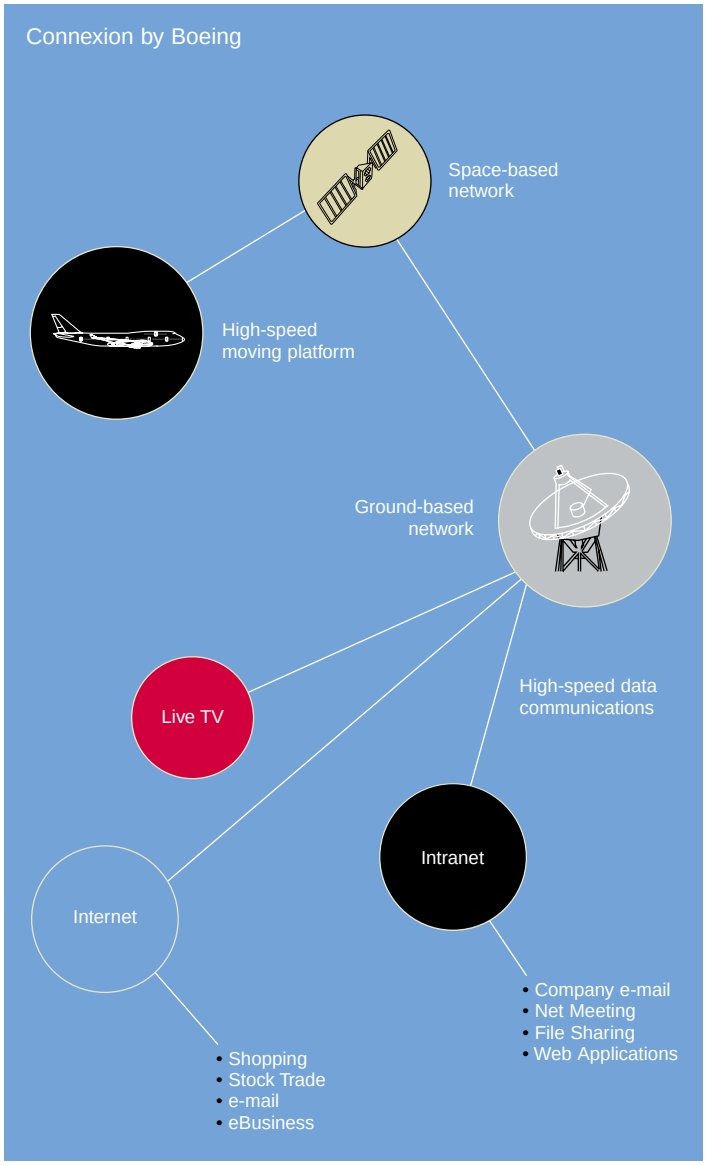
Cost of Ownership. The greatest cost of military aircraft systems lies in sustaining and supporting them. With today's large and aging inventories, the opportunity to provide innovative support solutions is great.

Opening New Frontiers

We have tremendous intellectual capital – our people. We have a great global brand, recognized in virtually every country in the world. And we have phenomenal large-scale systems integration expertise. These can be leveraged to open new frontiers for our company, with very large market potential.

Connexion by Boeing℠. Boeing intends to be a leader in the new mobile economy – and that means helping our airline customers and their passengers stay globally connected at all times. We are developing a global communications network and other services that will revolutionize the way people travel. It will provide air travelers with an unparalleled array of high-speed data communication services by means of a space-based network – all for about the same price as cellular phone service. Using Connexion by Boeing, commercial airline passengers will be able to access their company intranets, the Internet, e-mail, television, news and information – essentially any form of high data-rate communication today's business or leisure travelers require – in real time at 39,000 feet and moving at 500 miles per hour. Other applications include corporate and private business jets, including the Boeing Business Jet, government platforms and aircraft health monitoring. What differentiates Connexion by Boeing from other systems are its speed and bandwidth – in large part dependent on a unique receive-and-transmit phased-array antenna, developed and patented by Boeing. A successful test of the system was completed in December 2000, and service is expected to become available in late 2001.

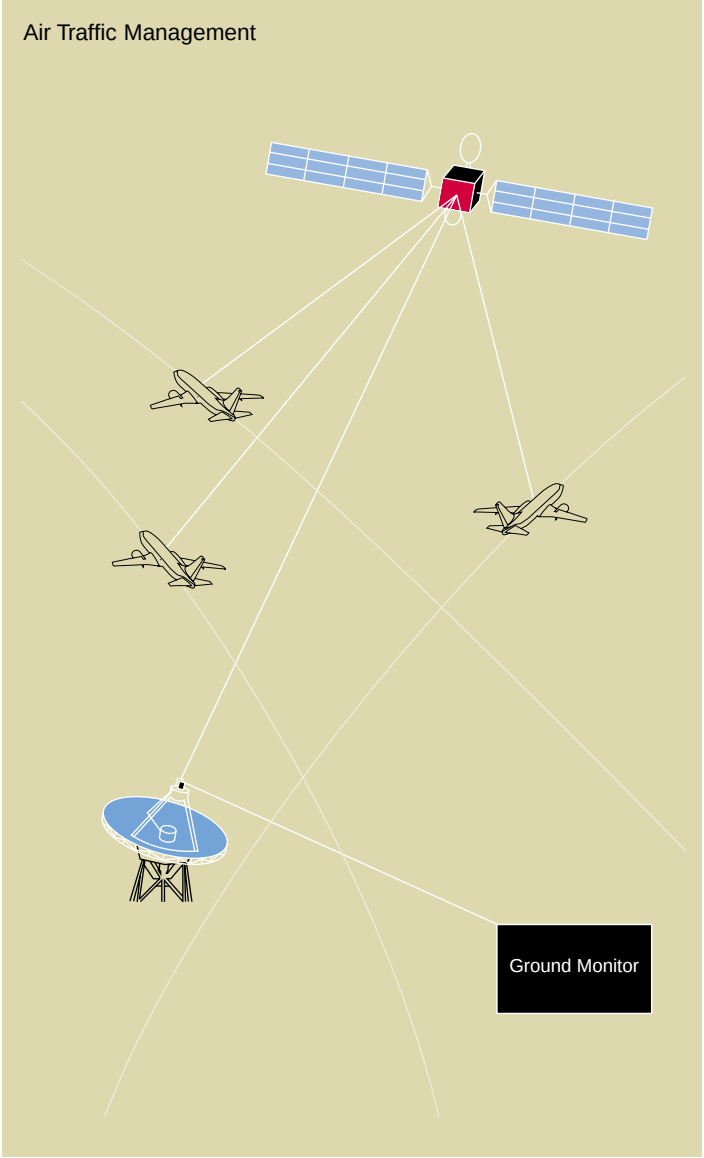
Cinema Connexion by Boeing℠. In an example of the synergy created when Boeing acquired Hughes' space and communications businesses in 2000, Boeing and an industry team have unveiled a fiber- and satellite-based system designed to revolutionize motion picture film distribution. A satellite's inherent capability to deliver point-to-multipoint information enables Cinema Connexion by Boeing to send one movie to thousands of theaters in a matter of hours at a fraction of traditional costs. The system worked flawlessly during its unveiling for the premiere of the major motion picture "Bounce" in November 2000. The movie was delivered direct by satellite to the AMC Empire Theatre in New York.



Connexion by Boeing. Our global communications system will provide travelers with an unparalleled array of high-speed data communications services by means of a space-based network.

Air Traffic Management. Airlines now fly 1.8 billion passengers a year – about the same as the population of China. By 2016, airlines are expected to carry 4.5 billion people each year. Many of the world's air traffic systems are straining today to maintain efficient, reliable and convenient service, much less support the anticipated growth. ■ Boeing is developing an air traffic management system that will dramatically increase capacity, improve safety and remain affordable for those who use the system. It will require a fundamental change in how the system operates. Our approach is to first define the system requirements, then apply an operational concept that supports those requirements, and after that, select the right technology set.

Phantom Works. Engineers and scientists in our Phantom Works innovation center are leading a revolution in the development and application of breakthrough technologies that dramatically reduce the cycle time and cost of our products while improving their quality and performance. These breakthroughs include such innovative manufacturing techniques as laser-formed titanium, friction stir joining, and stitched/resin film infusion for creating larger, lighter and cheaper metallic and composite structures; new 3-D modeling and simulation techniques that can exploit the advantages of these manufacturing techniques for creating designs for fast, easy, toolless assembly; and incredibly powerful yet inexpensive avionics systems using commercially available computer tools, processes and components. ■ These and other innovative approaches are being used to develop such revolutionary low-cost, high-performance systems as the Unmanned Combat Air Vehicle, X-37 reusable space plane, Canard Rotor-Wing aircraft and Orbital Express service satellite, as well as the robotics-oriented, network-centric Future Combat System. When they are proven on our advanced systems, we can use these innovative approaches to improve current systems. ■ Beyond this development work, Phantom Works helps foster further innovation by managing the company's new Chairman's Innovation Initiative, which allows inventors to incubate ideas into potential new businesses. Phantom Works is also helping to convert many of our employees' creative concepts into profits through the patent and licensing process of its new Intellectual Property Business.



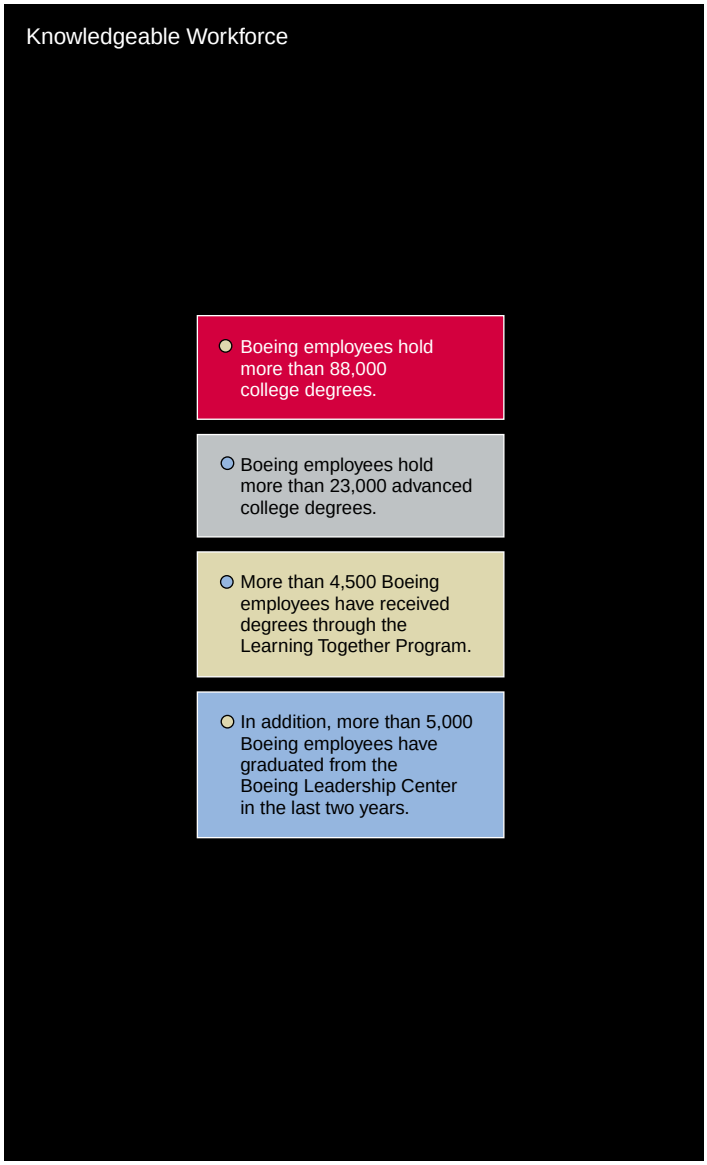
Air Traffic Management. Drawing from our large-scale systems expertise, we are developing a new air traffic management system to significantly improve capacity and improve safety throughout the world.

Unleashing Our Intellectual Capital

Integral to running healthy core businesses, leveraging core strengths into new products and services, and opening new frontiers is our ability to use information quickly and well. Knowledge is to the Information Age what electricity was to the Industrial Age. Today, an organization's ability to learn and translate that learning into action is the ultimate competitive advantage. This requires lean, flexible processes and computing systems that support and enable a growing, changing business. Our company also has substantial financial and physical muscle, as well as something far more valuable – unparalleled intellectual capital.

People. The creative talent of our employees is what truly sets us apart – Boeing has one of the most skilled and knowledgeable workforces in the world. With their genius and commitment, we develop exceptional aerospace and communications products and services – because we are committed to adding real value, both for our customers and our shareholders. We aim to grow the enterprise in ways that are capital light, but intellectually heavy. Through the creative talents of our people, we hold a rich portfolio of intellectual assets, including a well-known brand and more than 6,300 active patents worldwide. To maintain this competitive edge, we invest heavily in educational programs for our employees – including $110 million in 2000 for the Learning Together Program and the Boeing Leadership Center in St. Louis. In addition, we plan to increase the use of our Leadership Center to accommodate more leadership development training. The cultivation of intellectual talent, business savvy and innovative thinking, combined with our investments in some of the best information technology in the world, will provide us with more than the ability and agility to meet the fast-paced demands of the global market – it will allow us to define the future of aerospace for the betterment of mankind.

Contributions to Communities. No company is an island – complete in itself. Every company of any size is vitally dependent upon the health, well-being and diversity of the communities in which its plants and offices are located. No company can hope to attract and retain skilled

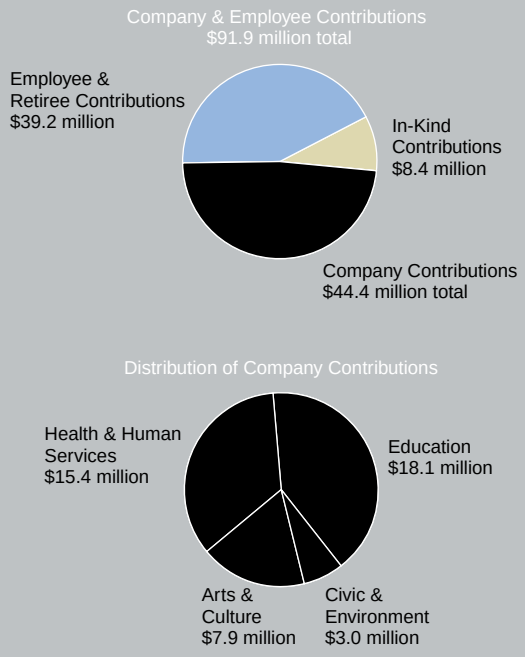


Cultivating Knowledge. One of our strongest assets is the rich intellectual capital of our people. By investing in programs such as Learning Together and the Boeing Leadership Center, we intend to build on that strength to develop one of the best-educated workforces in the world.

and knowledgeable people in an educational and cultural vacuum. The most successful companies are often the ones that are most active in supporting their communities – and not just at a corporate level but also in the voluntary contributions and actions of their people. In 2000, company and employee contributions of cash and in-kind services were nearly $92 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 – $39.2 million – came from our exceptionally generous employees and retirees, largely through the Employees Community Funds 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 in their communities. The company made contributions of more than $52.7 million in cash and in-kind services during 2000, the largest portion of which went to education.

Environment. Our products have raised the understanding, hopes and aspirations of people around the globe. Modern aircraft, global communications and orbital exploration have made the world a more connected place. Our spacecraft, space station, satellites, communications systems and aircraft are essential tools of environmental discovery, discussion and problem solving. As complex system integrators, we understand the need for integrated, balanced solutions to problems involving our complex global ecological, economic, social/political and defense systems. Boeing has played a unique role in the world's awareness of and sensitivity to environmental issues, and will continue to play an indispensable role in providing the tools to help people solve them. The view of the fragile Earth from outer space is both an icon of the environmental movement and a testimony to the enabling value of the Boeing mission. We don't have all the answers, but those discovering the answers will do it with the tools Boeing is providing now and in the future.

Giving to Communities



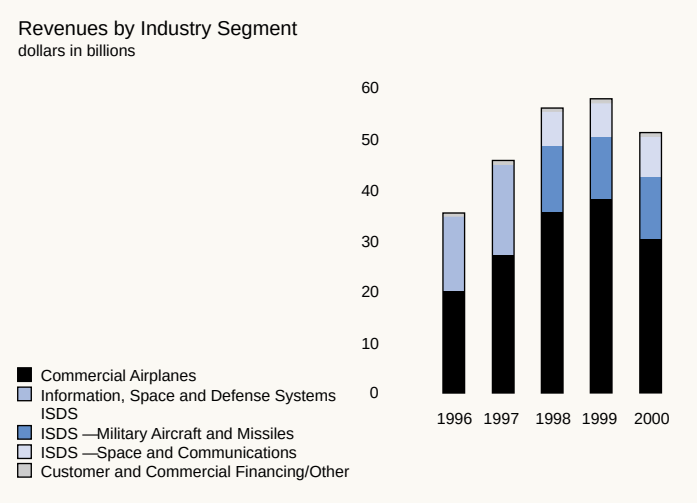
Giving to Communities. Boeing embraces good corporate citizenship in all that we do. Our people also understand the long-term value of community involvement. Each day, thousands of our people demonstrate their commitment to communities around the world – places we proudly call home.

Financial Table of Contents

Results of Operations

Revenues.

Operating revenues for 2000 were $51.3 billion compared with $58.0 billion in 1999 and $56.2 billion in 1998. The lower revenues for 2000 principally reflect decreased deliveries in the Commercial Airplanes segment, but also reflect an increase in Space and Communications segment revenues of $1.2 billion to $8.0 billion in 2000. The higher revenues in 1999 relative to 1998 principally reflect increased deliveries in the Commercial Airplanes segment.



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, launches, revenues, earnings, operating margins, research and development, project completion growth in the integrated defense system sector and NMD LSI, increases in net periodic benefit income and net periodic benefit costs, increases in employee health care costs, the 717 program, the Delta III program, growth in passenger traffic, the commercial aircraft market, the commercial aviation support market, increases in military research and development and procurement, the aerospace support market, passenger revenue yields, increases in energy costs, fuel costs, long-term productivity improvements, environmental contingencies and other trend projections. This forward-looking information is based upon a number of assumptions including assumptions regarding global economic, passenger and freight growth; current and future markets for the Company's products and services; demand for the Company's products and services; performance of internal plans, including, without limitation, plans for productivity gains, reductions in cycle time and improvements in design processes, production processes and asset utilization; product performance; customer financing; customer, supplier and subcontractor performance; customer model selections; favorable outcomes of certain pending sales campaigns and U.S. and foreign government procurement actions; supplier contract negotiations; price escalation; government policies and actions; successful negotiation of contracts with the Company's labor unions; regulatory approvals; 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, supplier contract negotiations, asset management plans, acquisition and divestiture plans, procurement plans, and other cost-reduction efforts; the actual outcomes of certain pending sales campaigns and U.S. and foreign government procurement activities; 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; 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; domestic and international economic conditions; 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. Additional information regarding these factors is contained in the Company's SEC filings, including, without limitation, the Company's Annual Report on Form 10-K for the year ended 1999 and the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.

Commercial Airplanes. Commercial Airplanes products and services accounted for 61%, 66% and 66% of total operating revenues for the years 2000, 1999 and 1998, respectively.

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

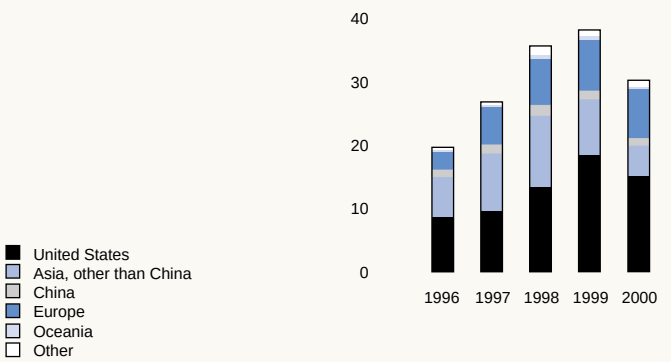
	2000	1999	1998
717	32(23)	12(2)	—
737 Classic	2	42	116(6)
737 NG	279	278	165
747	25	47	53(3)
757	45	67	54
767	44	44(1)	47
777	55	83	74
MD-80	—	26(21)	8(4)
MD-90	3	13	34
MD-11	4	8	12(2)
Total	489	620	563

Deliveries in 2000 include intercompany deliveries of four 737 NG aircraft and one ABL 747, and 1998 intercompany deliveries include four 757 aircraft.

Final deliveries of the MD-80 aircraft program occurred in 1999, and final deliveries of the 737 Classic and MD-90 aircraft programs occurred in 2000. Production of the MD-11 aircraft program completed in 2000, with final deliveries completed in early 2001. The first 717 delivery occurred in the third quarter of 1999. The 737-900 derivative was completed in 2000 and first delivery is scheduled for 2001.

Total commercial aircraft deliveries for 2001 are currently projected to be approximately 530 aircraft. Based on current plans, Commercial Airplanes revenue is projected to be in the $35 billion range. Total commercial aircraft deliveries for 2002 are currently projected to approximate total deliveries for 2001. Commercial aircraft transportation trends are discussed in the Commercial Airplanes Business Environment and Trends section on pages 67–69.

Commercial Airplanes Sales
by Geographic Region
dollars in billions



Military Aircraft and Missiles. Military Aircraft and Missiles segment revenues were $12.2 billion in both 2000 and 1999 and $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 and the F/A-18E/F Super Hornet accounted for more than 8% of total 1999–2000 segment revenues. Revenues include amounts attributable to production programs and amounts recognized on a cost-reimbursement basis for developmental programs such as the F-22 Raptor and V-22 Osprey. The principal contributors to 2000 Military Aircraft and Missiles segment revenues included the C-17 Globemaster, F/A-18E/F Super Hornet, F/A-18C/D Hornet, AH-64 Apache, F-22 Raptor, F-15 Eagle, V-22 Osprey, and CH-47 Chinook programs, along with aerospace support programs.

Deliveries of selected production units were as follows:

	2000	1999	1998
C-17	13	11	10
F-15	5	35	39
F/A-18C/D	16	25	29
F/A-18E/F	26	13	1
T-45TS	16	12	16
CH-47 Chinook	7	14	18
757 C-32A	—	—	4
AH-64 Apache	8	11	5

Military Aircraft and Missiles segment revenues for 2001 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 pages 69–70.

Space and Communications. Space and Communications segment revenues were $8.0 billion in 2000, compared with $6.8 billion in 1999 and $6.9 billion in 1998. The segment is broadly diversified. The principal contributors to 2000 Space and Communications segment revenues included National Missile Defense Lead System Integrator (NMD LSI) and the International Space Station, each accounting for approximately 15% of 2000 revenues. Other principal contributors included satellite system programs, principally from the Hughes space and communications businesses acquired from Hughes and renamed Boeing Satellite Systems (BSS), Space Shuttle Flight Operations and Main Engine, E-3 AWACS (Airborne Warning and Control System) updates, Delta space launch services, and classified projects for the U.S. Government.

Deliveries of selected production units were as follows:

	2000	1999	1998
767 AWACS	—	2	2
Delta II	10	11	13
Delta III	—	1	1
BSS Satellites	5	—	—

Space and Communications segment revenues for 2001 are projected to be in the $10 billion range, including a full year of revenues for Boeing Satellite Systems. Growth will continue in the Integrated Defense System sector, as well as the NMD LSI program. Segment business trends are discussed in the Space

and Communications Business Environment and Trends section on page 70.

Customer and Commercial Financing/Other. Operating revenues in the Customer and Commercial Financing/Other segment were $758 million in 2000, compared with $771 million in 1999 and $612 million in 1998. 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 74.

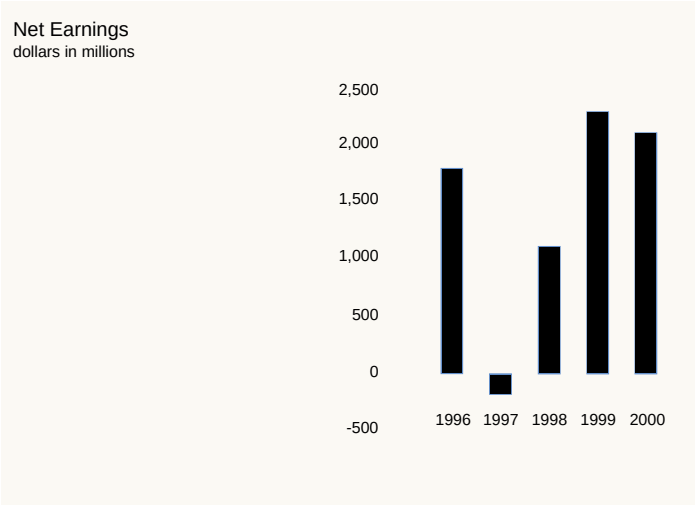
. . . . . .

Based on current schedules and plans, the Company projects total 2001 revenues to be approximately $57 billion.

Earnings.

Net earnings of $2,128 million for 2000 were $181 million lower than 1999 earnings. Net earnings in 2000 were significantly impacted by $557 million expensed as in-process research and development ($348 million after tax) attributable to the Company's acquisitions in 2000, principally to the acquisition of the Hughes space and communications businesses which became Boeing Satellite Systems. Net earnings also reflected significant improvement in Commercial Airplanes margins resulting from continued production efficiencies.

In 2000, other income included $73 million of interest income attributable to federal income tax audit settlements, and a $42 million gain on the sale of a long-held equity investment. Share-based plan expense in 2000 included $58 million attributable to compensation arrangements extended to employees of Boeing Satellite Systems who had been covered under various compensation arrangements prior to the acquisition. Also, the Company recognized in the fourth quarter of 2000 an actuarial expense of $38 million attributable to a pension curtailment associated with employees of the St. Louis fabrication operations that were sold in January 2001.



Net earnings of $2,309 million for 1999 were $1,189 million 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 ($38.5 billion in 1999 versus $37.0 billion in 1998). A $350 million pretax forward loss ($218 million after tax) recognized on the Next-Generation 737 program also adversely impacted operating earnings for 1998. Additionally, research and development companywide decreased by $554 million to $1,341 million in 1999. Net gain on dispositions for 1999 of $87 million compares with $13 million in 1998 and principally reflects the $95 million gain on the sale of Boeing Information Systems. Offsetting these increases in 1999 net earnings relative to 1998 were charges in 1999 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 $10.7 billion of unrecognized net actuarial gains. The Company projects that in the near term, net periodic pension benefit income will be significantly increased, and that the 2001 net periodic pension benefit income will be more than $400 million greater than the $428 million recognized in 2000. Additionally, net periodic benefit costs attributable to other postretirement benefits are also projected to increase substantially in the near term. Not all net periodic benefit income or expense is recognized in net earnings in the year incurred since these costs are principally allocated to production as product costs, and a portion remains in inventory at the end of a reported period.

The Company has recently experienced rising employee health care costs, and these costs are projected to increase in the near term, similar to health care costs associated with retirees.

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 2000 Commercial Airplanes segment earnings of $2,736 million (based on the cost of specific airplane units delivered—see discussion under Segment Information on page 72) resulted in an earnings from operations margin of 8.8%, or 10.8% exclusive of research and development expense and in-process research and development expense. The 1999 Commercial Airplanes segment earnings of $2,082 million resulted in an earnings from operations margin of 5.4%, or 6.9% exclusive of research and development expense. The increased earnings and margins for 2000 were principally due to continued improvement in the production process.

Customer advance payments prior to delivery may be delayed or contractually deferred from a baseline schedule, resulting in the recognition of interest income. Beginning in 2000, revenues resulting from deferred customer advances were identified to the Commercial Airplanes segment, and had previously been identified to the Customer and Commercial Financing/Other segment. These revenues totaled $83 million in 2000, and $66 million and $118 million were reclassified to the Commercial Airplanes segment for 1999 and 1998.

The Commercial Airplanes segment loss of $148 million in 1998 compares with earnings of $2,082 million in 1999. 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.

Commercial Airplanes segment earnings, as determined under generally accepted accounting principles (GAAP), reflect the program method of accounting and incorporate a portion of the 'Accounting differences/eliminations' caption as discussed in Note 1. Commercial Airplanes segment earnings under GAAP, and including intercompany transactions, were $2,099 million for 2000, $1,778 million for 1999 and $366 million for 1998, and comparable margins were 6.7%, 4.6% and 1.0% (or 8.7%, 6.1% and 3.7% excluding R&D) for 2000, 1999 and 1998, respectively.

The improving GAAP margins over this period reflect improved unit costs over the accounting quantity, along with the impact of additional units within the accounting quantity for the Next-Generation 737 and the 777. 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 increase of the accounting quantity for a new program generally results in improved margins. The Next-Generation 737 program accounting quantity was 400 units at the beginning of 1998 (a pretax forward loss of $350 million was recognized in first quarter 1998), 800 units at the end of 1998, 1,200 units at the end of 1999 and 1,650 units at the end of 2000. The 777 accounting quantity was 500 at the end of 1998 and 1999 and 600 at the end of 2000. Improved margins from 1999 to 2000 also reflect an increase in estimated revenue for airplanes within the program accounting quantities.

In 1999, the Company delivered the initial units of the 717 program, and 44 units have cumulatively been delivered as of year-end 2000. 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 program reviews indicate positive gross profit within the program accounting quantity. Such program reviews could include revised assumptions of revenues and costs. The Company has significant exposures related to the 717 program, principally attributable to pricing pressures and the slow buildup of firm orders. Current firm contracts for the 717 program include a contract for 50 airplanes with Trans World Airlines (TWA), of which 15 have been delivered. On January 10, 2001, TWA and certain of its domestic subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. TWA also filed a motion seeking the court's approval of an asset purchase agreement with American Airlines, Inc., a subsidiary of AMR Corporation, pursuant to section 363 of the bankruptcy code. TWA has received $200 million in Debtor in Possession financing from American. This financing is intended to enable TWA's continued operation during the transition period. The sale of TWA's assets to American Airlines, Inc., is subject to better offers as a result of a bidding process, plus Bankruptcy Court approval. It is unclear if TWA or any successor company will commit to the delivery of the remaining 717 aircraft. The Company currently believes that these units can be placed with other potential customers, if necessary. See also the discussion in the Customer and Commercial Financing/Other section regarding additional exposure relating to TWA.

The Company projects significant market opportunities for the commercial aviation support market over the next two decades. Factors contributing to the need for aviation support include deregulation, privatization and globalization, which have increased competition and forced airlines to operate more efficiently. The Company will focus on total life-cycle opportunities, which include airplane servicing and maintenance, and airport and route infrastructure services.

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 airfares, similar to the competitive environment in the United States. Airfares between Asia and the United States are among the lowest yield (airfare divided by revenue passenger miles) of any in the world. 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 2000 and 1999 were $1,271 million and $1,193 million. The segment operating margins were 10.4% and 9.8% for 2000 and 1999. The 2000 operating results reflect strong profits on major production programs. These programs include the C-17 Globemaster, F/A-18E/F Super Hornet, F/A-18C/D Hornet, T-45 Goshawk Training System, AV-8B Harrier, and the Harpoon missile. 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. 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 F-22 Raptor and V-22 programs are currently transitioning to low-rate initial production.

Space and Communications. Space and Communications segment operating earnings for 2000 and 1999 were $260 million and $320 million, prior to non-recurring items. Operating margins were 3.2% and 4.7% for 2000 and 1999. The 2000 operating results included a non-recurring pretax charge of $500 million associated with the in-process research and development from the acquisitions of Hughes space and communications businesses, along with $78 million in costs associated with a Delta III demonstration launch in August 2000. Operating results for 1999 included a pretax gain of $95 million related to the sale of Boeing Information Systems to Science Applications International Corporation in July 1999.

The segment operating margins were reduced by significant company investments in the development of new products, in particular, the Delta IV launch vehicle and the aircraft internet data service known as Connexion by Boeing.SM Earnings were also impacted by the amortization of goodwill and acquired intangibles of $28 million principally associated with the acquisition of Boeing Satellite Systems. 2001 operating earnings will continue to be impacted by new product development expenses but to a lesser degree than prior years primarily due to the transition of development products into production. Connexion by Boeing℠ product line was realigned and will begin performance reporting separately in 2001. Operating results for 1999 included favorable contract settlements. Program margins for the Space and Communications segment, excluding non-recurring items, contract settlement in 1999 and research and development, were 10.8% in 2000 and 11.2% in 1999. Margins are expected to increase in 2001 as development programs move closer to entering the operational phase.

Softening of the commercial launch market continued in 2000. As previously mentioned, a Delta III demonstration launch was completed at company expense in August, marking a successful return to flight and proving system reliability. The Company continues to have risk related to work in process inventory and supplier commitments for the Delta III program, and these risk assessments remain closely monitored. The next Delta III launch is anticipated for 2002.

The Sea Launch program in which Boeing is a 40% partner with RSC Energia (25%) of Russia, Kvaerner Maritime (20%) of Norway, and KB Yuzhnoye/PO Yuzhmach (15%) of Ukraine also had a successful return to flight in July 2000. The venture incurred losses in 2000 due to the termination of an ICO launch early in the year and expenses related to initial operations. Space and Communications segment operating earnings include losses of $26 million and $57 million for 2000 and 1999 attributable to the Sea Launch venture. The Company has ongoing operational and financial exposure due to the Sea Launch venture, and the financial exposure principally results from company guarantees extended on partnership loans. The Company's maximum exposure to credit-related losses associated with credit guarantees, disclosed in Note 20 to the Consolidated Financial Statements, includes $373 million attributable to Sea Launch. The Company projects that the Sea Launch joint venture will require additional infusions from the partners during 2001. This is expected to result in additional cash requirements and/or loan guarantees imposed on the Company.

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 modifications, testing and checkout operations that are required to ready the Space Shuttle for launch. The joint venture operations are not included in the Company's consolidated statements; however, the Company's proportionate share of joint venture earnings is recognized as income. The segment's operating earnings include earnings of $60 million and $48 million for 2000 and 1999 attributable to United Space Alliance.

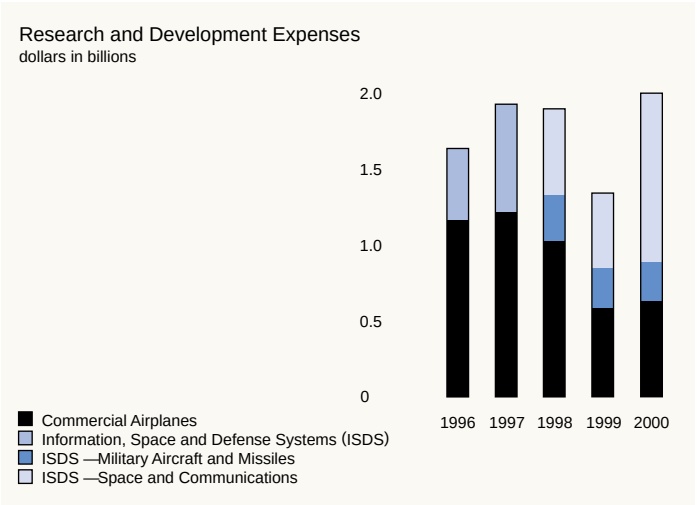
Customer and Commercial Financing/Other.

Operating earnings for the Customer and Commercial Financing/Other segment were $494 million in 2000, $426 million in 1999, and $249 million in 1998, exclusive of interest expense. The increase in earnings during the period occurred principally because of significant provisions for losses and write-downs of equipment under operating lease in 1998 and 1999. The increase in operating earnings from 1998 to 1999 also reflects an increase in segment revenue of $159 million.

Included in this segment's assets is $1,459 million of customer financing with Trans World Airlines (TWA), principally aircraft under operating lease. TWA has undergone bankruptcy proceedings, as previously discussed in the Commercial Airplanes Operating Earnings section. Based upon the underlying collateral position in these assets, the Company believes that the ultimate outcome of the TWA proceedings will not have a material impact on the Customer and Commercial Financing/Other segment financial position or results of operations.

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.



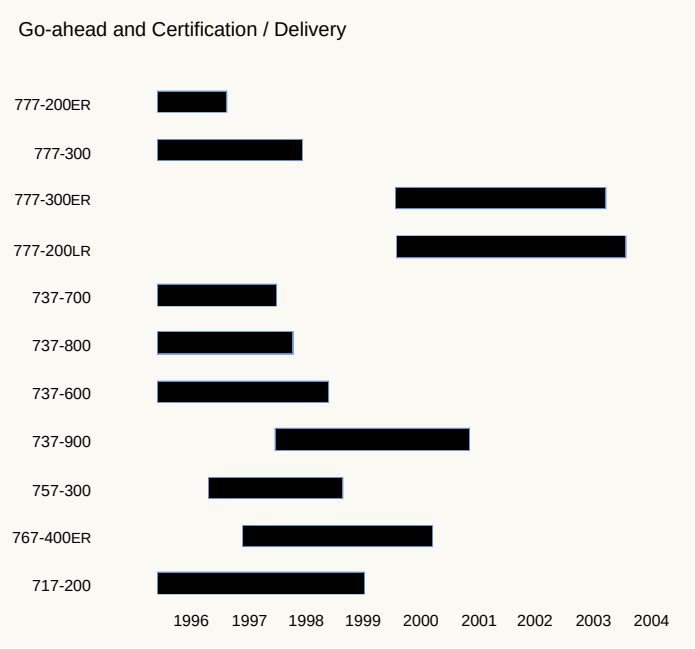
In 2000, total research and development was $1,998 million, compared with $1,341 million in 1999 and $1,895 million in 1998. The amount expensed in 2000 included $557 million attributable to in-process research and development (IPR&D) discussed below.

Excluding IPR&D, research and development increased $100 million in 2000, principally due to increases from the Space and Communications segment. In 1999, research and development declined in each operating group relative to 1998. The most significant decline in 1999 was attributable to the Commercial Airplanes segment and related to the timing of major commercial aircraft developmental programs.

Commercial Airplanes. Commercial Airplanes research and development expense in 2000 was essentially unchanged from 1999, but reflected reduced spending attributable to the 767-400ER and 717 programs, and increased spending attributable to the development of two longer-range 777 models.

The principal commercial aircraft developmental programs during the 1998–2000 period were the 767-400ER, the Next-Generation 737 family, the 717 program, the 757-300 derivative, and the 777-300 wide-body twinjet derivative.

The initial delivery of the 767-400ER, a stretched version of 767-300ER, occurred in the third quarter of 2000. 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. 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 customer knowledge, technical strength 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. Other research and development efforts include upgrade and technology insertions to enhance the capability and competitiveness of current product lines, as well as exploration of new markets such as unmanned air vehicles (UAVs).

Space and Communications. There continued to be significant investment in development programs at the Space and Communications segment in 2000. Research and development expenditures supported the development of the Delta IV launch vehicle, the new 737-based airborne early warning and control aircraft, and the aircraft internet-based data service Connexion by Boeing.℠ Delta IV development expense has been reduced by the U.S. Government's participation in developing the Evolved Expendable Launch Vehicle (EELV).

In-Process Research and Development. The fair value amount of $500 million of in-process research and development (IPR&D) attributed to the Hughes acquisition discussed below was determined by an independent valuation using the income approach.

Thirteen projects were included in the valuation, of which the principal projects were based on the following: technologies associated with high-efficiency solar cells and satellite battery technology ($189 million), phased array and digital processing technology to provide high-speed broadband service ($89 million), and xenon-ion systems for satellite engine propulsion ($82 million). The fair value of identifiable intangibles was also determined by an independent valuation primarily using the income approach. The following risk-adjusted discount rates were used to discount the project cash flows: solar cells and satellite battery technology, 17%; phased array and digital processing technology to provide high-speed broadband service, 18%; xenon-ion systems for satellite engine propulsion, 18%; all other projects, 18.2% weighted average. Operating margins were assumed to be similar to historical margins of similar products. The size of the applicable market was verified for reasonableness with outside research sources. The projects were in various stages of completion ranging from approximately 31% to 92% complete as of the valuation date, with specific percentages complete by project as follows: solar cells and satellite battery technology, 49%; phased array and digital processing technology, 87%; xenon-ion systems for satellite engine propulsion, 82%. The stage of completion for each project was estimated by evaluating the cost to complete, complexity of the technology and time to market. The projects are anticipated to be completed between 2001 and 2003. The estimated cost to complete the projects is $80 million.

The discount rates stated previously are higher than the Company's weighted average cost of capital due to the inherent uncertainties in the estimates described previously, including the uncertainty surrounding the successful completion of the purchased in-process technology, the useful life of such technology, the profitability levels of such technology and the uncertainty of the timing of the related product introduction and then-existing competing products. If these projects are not successfully developed, the future revenue and profitability of Boeing Satellite Systems may be adversely affected. Additionally, the value of the other intangible assets acquired may become impaired.

The fair value amount of $45 million of in-process research and development (IPR&D) attributed to the acquisition of Jeppesen Sanderson Inc., was determined by an independent valuation. The acquired in-process research and development technology consists primarily of three software projects that will work together to store information and extract it for use in various products sold by Jeppesen. The technology will allow the manufacture of end user aeronautical information both backwards and forwards in time, and will allow the extraction of the information on a near real-time basis. Furthermore, the technology will allow the creation of packages of aeronautical information derived from a single source of database information, which can be tailored to individual customers or can be packaged as a new product. These database and extraction capabilities are required in developing new and enhanced charting and mapping products for customers worldwide. These acquired in-process research and development projects are expected to be complete by mid-2001; however, full range and production of the technology is anticipated in the first quarter of 2002. The technology, once completed, can only be used for its specific and intended purpose and as such no alternative future uses exist. The valuation methodology was determined using the income approach, and a risk-adjusted discount rate of 15% was used to discount the project cash flow. As of the date of the acquisition, Jeppesen had incurred approximately $14 million in costs related to IPR&D projects. The estimated cost to complete the projects is $7 million.

Other acquisitions resulting in the recognition of IPR&D during 2000 using a similar income approach included Continental Graphics Corp. ($7 million IPR&D) and Autometric, Inc. ($5 million IPR&D).

Total Company research and development expenditures for 2001 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 2001 is expected to be in the range of 3.0% to 3.5% of total revenues. Research and development activities are further discussed in the Strategic Investments for Long-Term Value section on page 70.

Income Taxes.

The 2000 effective income tax rate of 29.0% varies from the federal statutory tax rate of 35%, principally due to Foreign Sales Corporation (FSC) tax benefits of $291 million. Offsetting this benefit are state income taxes and the non-deductibility of certain goodwill, principally the goodwill acquired by the acquisition of the aerospace and defense units from Rockwell International Corporation in 1996.

The 1999 effective income tax rate of 30.5% varies from the federal statutory tax rate for the same reasons that apply to the 2000 rate. The relatively smaller reduction from the statutory rate in 1999 relative to 2000 results principally from lower FSC tax benefits in 1999 ($230 million) and the application of net tax credits to a larger pretax earnings amount ($3.3 billion in 1999 compared with $3.0 billion in 2000).

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. These credits resulted in a lower effective tax rate in 1998 since they were applied to a significantly smaller pretax earnings amount ($1.4 billion in 1998 compared with $3.3 billion in 1999).

In response to an adverse World Trade Organization (WTO) finding relative to the U.S. FSC tax provisions, the U.S. repealed FSC and enacted replacement legislation (Extraterritorial Income Exclusion Act of 2000). The European Union has filed a WTO challenge to the new law. It is not possible to predict what impact, if any, this issue will have on future earnings pending final resolution of the challenge.

Additional information relating to income taxes is found in Note 13 to the Consolidated Financial Statements on pages 85–86.

Acquisitions.

Hughes Space and Communications Businesses. On October 6, 2000, the Company acquired the Hughes space and communications and related businesses for $3,849 million in cash. These businesses were renamed Boeing Satellite Systems. The acquisition was accounted for as a purchase. The preliminary purchase price allocation resulted in the following: $500 million charged to earnings for the fair value of acquired in-process research and development (IPR&D) that had not reached technological feasibility and had no future alternative use; $489 million for developed technology; $142 million for assembled workforce; $740 million for goodwill; $626 million for a prepaid pension asset, primarily from an overfunded pension plan; and $118 million for liabilities attributable to other postemployment benefit obligations acquired. Boeing Satellite Systems is a satellite-based communications company with approximately 9,000 employees in Southern California.

Jeppesen Sanderson Inc. On October 4, 2000, the Company acquired Jeppesen Sanderson Inc. for $1,524 million in cash. The acquisition was accounted for as a purchase. The preliminary purchase price allocation resulted in the following: $45 million for IPR&D, $772 million for goodwill, $308 million for product know-how, $205 million for trade name, $91 million for customer lists, and $59 million for other acquired intangibles. Jeppesen Sanderson Inc. is a supplier of flight information services.

Other Acquisitions. The principal other acquisitions during 2000 included Autometric, Inc., a geospatial information technology company, and Continental Graphics Corp., a provider of technical information to the aviation industry. These acquisitions were accounted for as a purchase. Autometric, Inc. was acquired for $119 million in cash. The preliminary purchase price allocation resulted in $5 million expensed as IPR&D and $58 million recorded as goodwill.

Continental Graphics Corp. was acquired for $183 million in cash. The preliminary purchase price allocation resulted in the following: $7 million for IPR&D, $62 million for data repository, $49 million for goodwill, and $18 million for assembled workforce.

Boeing Satellite Systems and Autometric, Inc., will be accounted for as part of the Space and Communications segment. Jeppesen Sanderson Inc., and Continental Graphics Corp. will be accounted for as part of the Commercial Airplanes segment.

Labor Negotiations and Workforce Levels.

As of December 31, 2000, the Company's principal collective bargaining agreements were with the International Association of Machinists and Aerospace Workers (IAM), representing 26% of employees (current agreements expiring May 2001, September 2002, and October 2002); the Society of Professional Engineering Employees in Aerospace (SPEEA), representing 13% of employees (current agreements will expire in December 2002 and a contract with a new unit is now under negotiation); the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), representing 5% of employees (current agreements expiring September 2002, May 2003, and April 2004); and Southern California Professional Engineering Association (SCPEA), representing 3% of employees (current agreement expiring March 2001).

The Company made several acquisitions during the past year. The largest acquisition involved the purchase of the Hughes space and communications businesses. That acquisition was completed in October 2000 and added approximately 9,000 employees to Boeing's workforce. The Company's workforce level was 198,000 at December 31, 2000.

Derivative Instruments and Hedging Activities.

As of January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended. This standard requires that the statement of financial position reflect the current market price of derivatives. With the adoption of SFAS No. 133, the Company recognized a transition gain of $1 million after tax, and an adjustment to accumulated other comprehensive income of a loss of $11 million after tax.

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 potential acquisitions.

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 77 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 is defined as cash flow from operations less change in short-term investments, reduced by facilities and equipment expenditures.

(Dollars in billions)	2000	1999	1998
Net earnings	$ 2.1	$ 2.3	$ 1.1
Non-cash charges to earnings[a]	2.6	1.8	1.8
Change in gross inventory[b]	1.6	5.6	1.5
Change in customer advances[c]	(0.5)	(3.6)	(0.8)
Net changes in receivables, liabilities and deferred income taxes[d]	0.4	0.2	(1.3)
Facilities and equipment expenditures	(0.9)	(1.2)	(1.7)
Pension income (expense) variance to funding	(0.4)	(0.3)	(0.2)
Free cash flow	4.9	4.8	0.4
Proceeds from dispositions[e]	0.2	0.4	
Change in customer and commercial financing[f]	(1.1)	(0.6)	(1.2)
Acquisitions, net of cash acquired	(5.7)		
Change in debt[g]	2.0	(0.2)	0.1
Net shares acquired, other[h]	(2.3)	(2.9)	(1.3)
Cash dividends	(0.5)	(0.5)	(0.6)
Increase (decrease) in cash and short-term investments	$(2.5)	$ 1.0	$(2.6)
Cash and short-term investments at end of year	$ 1.0	$ 3.5	$ 2.5

(a) Non-cash charges to earnings as presented here consist of depreciation, in-process research and development, 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 expense does not impact current or future cash flow, except for the associated positive cash flow tax implications. Share-based plans expense is projected to increase in the near term as additional annual Performance Share grants are made. See Note 18 to the Consolidated Financial Statements.

(b) Next-Generation 737 program inventory increased substantially during 1998 and 1999. Inventory balances on the 747, 757 and 767 commercial jet programs increased in 1998 due to increased production rates, but the 737 Classic inventory decreased in 1998. The 777 program inventory also decreased in 1998, principally due to reduction of unamortized tooling and deferred production costs. The decrease in inventory in 1999 resulted principally from decreased production rates on the 777 and 747 programs and improved inventory cycle time. The decrease in inventory in 2000 also resulted from decreased production rates and improved inventory turns.

(c) The changes in commercial customer advances during 1998, 1999 and 2000 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 total change in receivables, liabilities, deferred income taxes and other resulted in a net asset increase of $0.7 billion for the three-year period presented. The net increase in cash attributable to changes in income taxes payable and deferred was $1.0 billion. Excluding potential tax settlements discussed in Note 13 to the consolidated financial statements, federal income tax payments in 2001 are projected to substantially exceed income tax expense due to completion of contracts executed under prior tax regulations. The Company projects that the Sea Launch joint venture will require additional infusions from the partners during 2001. This is expected to result in additional cash requirements and/or loan guarantees imposed on the Company.

(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. Over the three-year period 1998–2000, the Company generated $4.6 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 $7.7 billion. As of December 31, 2000, the Company had outstanding commitments of approximately $6.0 billion to arrange or provide financing related to aircraft on order or under option for deliveries scheduled through the year 2005. 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 maturity during this three-year period included $200 million in 2000, $650 million in 1999, and $300 million in 1998, and $300 million was added in 1998 with maturity in 2038. Additionally, Boeing Capital Corporation (BCC), a corporation wholly owned by the Company, issued $2.0 billion of debt in 2000, $400 million of debt in 1999 and $511 million in 1998. The significant BCC debt issuance in 2000 was performed in conjunction with the transfer of a significant portion of the Company's customer financing assets to BCC.

(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. The Company repurchased 35.2 million shares of stock for $1.3 billion in 1998, 68.9 million shares for $2.9 billion in 1999, and 41.8 million shares for $2.4 billion in 2000, which completed the share repurchase program. In the fourth quarter of 2000, the Company authorized an additional share repurchase program for up to 85 million additional shares.

Capital Resources.

The Company has long-term debt obligations of $7.6 billion, which are unsecured. Approximately $538 million mature in 2001, and the balance has an average maturity of 12.7 years. Excluding Boeing Capital Corporation (BCC), a financing subsidiary wholly owned by the Company, total long-term debt is at 30% of total shareholders' equity plus debt. The consolidated long-term debt, including BCC, is at 44% of total shareholders' equity plus debt. The Company has substantial additional long-term borrowing capability. Revolving credit line agreements with a group of major banks, totaling $3.0 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. 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, 2000, 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, 2000, 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. Trial on all issues now is set for May 1, 2001. Final resolution of the A-12 litigation will depend on the outcome of such trial 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, 2000, 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. 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 the individual defendants, to benefit directly from the sale of Boeing stock during the period from April 7, 1997 through October 22, 1997. By order dated May 1, 2000, the Court certified two subclasses of plaintiffs in the action: a. all persons or entities who purchased Boeing stock or call options or who sold put options during the period from July 21, 1997, through October 22, 1997, and b. all persons or entities who purchased McDonnell Douglas stock on or after April 7, 1997, and who held such stock until it converted to Boeing stock pursuant to the merger. The plaintiffs seek compensatory damages and treble damages. The action now is set for trial on March 7, 2002. 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 charged one employee with participation in the alleged conspiracy. (The indictment has since been dismissed as against that employee but his dismissal is the subject of a pending appeal by the government to the U.S. Court of Appeals for the D.C. Circuit.) 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 have been 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.

On February 25, 2000, a purported class action lawsuit alleging gender discrimination and harassment was filed against The Boeing Company, Boeing North American, Inc., and McDonnell Douglas Corporation. The complaint, filed with the United States District Court in Seattle, alleges that the Company has engaged in a pattern and practice of unlawful discrimination, harassment and retaliation against females over the course of many years. The complaint, Beck v. Boeing, names 28 women who have worked for Boeing in the Puget Sound area; Wichita, Kansas; St. Louis, Missouri; and Tulsa, Oklahoma. On March 15, an amended complaint was filed naming an additional 10 plaintiffs, including the first from California. The lawsuit attempts to represent all women who currently work for the Company, or who have worked for the Company in the past several years (approximately 70,000).

The Company has denied the allegation that it has engaged in any unlawful "pattern and practice" and believes that the plaintiffs cannot satisfy the rigorous requirements necessary to achieve the class action status they seek. The deadline for filing plaintiffs' motion for class certification, originally scheduled to be heard on August 25, 2000, now has been extended until May 2001. The Company intends to vigorously contest this lawsuit.

In October 1999, a number of individual plaintiffs filed a federal court action alleging employment discrimination based upon race and national (sic) origin (Asian). This action was subsequently consolidated with a related suit making similar allegations and class action status was sought in a motion filed on January 3, 2001. The class for which certification is being sought would include all non-management salaried workers of Asian descent employed in Washington State. The action is limited to claims of alleged discrimination in compensation, promotion, transfer, retention rating, and job classification.

The Company has denied the allegations of discrimination and plans to oppose the motion for class certification and vigorously defend the lawsuit. The court's decision on class certification is anticipated to be issued as early as the second quarter of 2001.

Energy Costs in Support of Production.

During late 2000 and early 2001, the Company experienced significant increases in energy costs, specifically electricity costs in the Southern California area. Although these increases are not expected to be sustained for the long term, the Company could be adversely impacted by both the prospect of continued high energy costs and the potential of mandated production curtailments.

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, 2000, the notional value of such derivatives was $484 million, with a net unrealized loss of $23 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.

Commercial Airplanes Business Environment and Trends

The worldwide market for commercial jet airplanes 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 airplanes is further influenced by airline industry profitability, world trade policies, government-to-government relations, environmental constraints imposed upon airplane operations, technological changes, and price and other competitive factors.

Global Economic and Passenger Traffic Trends.

As the major economies of the world experienced economic expansion during the 1990s and in 2000, airline passenger traffic increased. Economic growth worldwide in 2000 was almost 50% above long-term averages. This was led by exceptional and unsustainable performance in the U.S. economy. For the five-year period 1996-2000, the average annual growth rate for worldwide passenger traffic was 5.6%. The Company's 20-year forecast of the average long-term growth rate in passenger traffic is 4.8% annually, based on projected average worldwide annual economic real growth of 3.0%. Based on global economic growth projections over the long term, and taking into consideration increasing utilization levels of the worldwide airplane fleet and requirements to replace older airplanes, the Company projects the total commercial jet airplane market over the next 20 years at approximately $1.5 trillion in current dollars.

Although the Asian region has recently experienced economic difficulties, Company forecasts indicate that the airlines in this region, and especially in China, represent a significant potential market for commercial jet airplanes over the next 20 years. 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 airplanes. Because of slow economic growth, high customs duties, a shortage of foreign exchange, and legal and financing constraints, new airplane orders have not been significant. The Company expects that the airlines and the airplane manufacturing industry in this region will eventually be integrated into the international economy.

Airline Deregulation.

Worldwide, the airline industry has experienced progressive deregulation of domestic markets and increasing liberalization of international markets. Twenty-five years ago virtually all air travel took place within a framework of domestic and international regulatory oversight. Since then, an increasing number of countries, most notably the United States, Australia, and the countries in Western Europe, have eliminated restrictive regulations for domestic airline markets and promoted a more open-market climate for international services. Other countries such as Japan have deregulated their domestic markets. Currently, approximately one-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. By 2010, an estimated two-thirds of air travel will be in open markets. Liberalization of government regulations, together with increased airplane 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 airplane 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 airplane 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 airplanes.

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 five-year period 1996–2000. In 2000, traffic growth exceeded long-run averages, yields improved, and load factor reached historic highs in many areas of the world. However, the sharp increase in fuel costs in the second half of 2000 dampened the positive effect on airline earnings. Forecasts are for fuel costs to moderate in the future. The outlook for passenger traffic growth in 2001 is generally positive, especially in the United States, Europe, many parts of Asia, 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. A similar mandate will become effective in most European airports in April 2002. Compliance with these policies continues to be a factor for new airplane deliveries. During 2001, the International Civil Aviation Organization (ICAO) will be formulating new noise level standards that will influence airplane manufacturing and may influence retrofitting. The Company supports the mission of ICAO and endorses the continuing development of international noise standards. The Company believes that adoption of common standards worldwide will promote both meaningful control of noise pollution and a healthy economic environment around the world.

Industry Competitiveness.

Over the past ten years, the Company has maintained, on average, approximately a two-thirds share of the available commercial jet airplane market. The Company currently faces aggressive international competitors that are seeking to increase market share. This competitive factor was recently demonstrated by the public decision of Airbus to introduce the A380, a proposed aircraft with passenger seating greater than the 747, to increase market share at the upper end of the large airplane market. 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. Additionally, the Company's extensive customer support services network for airlines throughout the world plays a key role in maintaining high customer satisfaction. As an example, on-line access is available to all airline customers for engineering drawings, parts lists, service bulletins and maintenance manuals.

In July 2000, three major European aerospace companies (Aerospatiale Matra of France, DaimlerChrysler Aerospace of Germany, and Construcciones Aeronautica of Spain) combined to form the European Aeronautic Defence and Space Company (EADS). As a result of the formation, EADS became an 80 percent owner of Airbus Industrie (AI) and is leading the effort for the formation of the Airbus Integrated Company (AIC) in early 2001. The creation of the AIC will effectively change the Airbus role, from that of a marketer/distributor of large commercial airplanes to one including complete manufacturing responsibility. The AIC will be incorporated under French law as a privately held corporation owned 80 percent by EADS and 20 percent by BAE Systems.

Over the past five years, sales outside the United States have accounted for approximately 53% of the Company's total Commercial Airplanes segment sales; approximately 43% of the Commercial Airplanes segment contractual backlog at year-end 2000 was with customers based outside the United States. Continued access to global markets remains vital to the Company's ability to fully realize its sales potential and projected long-term investment returns.

The Impact of World Trade Policies.

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 airplane 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 63 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 airplane 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.

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 airplane 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.

Military Aircraft and Missiles Business Environment and Trends

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 DoD remains the principal customer of the Military Aircraft and Missiles segment. Major trends that shape this business segment include 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. Continuing demands for peacekeeping operations are driving high usage of equipment and the aging of equipment is creating operating cost affordability pressures.

In fiscal year 2001, the DoD procurement budget reached the $60 billion goal originally set by the 1997 Quadrennial Defense Review (QDR). However, the DoD, the Congressional Budget Office, and several independent studies now agree that the 1997 QDR significantly underestimated the level of funding necessary to modernize heavily used and rapidly aging equipment. Current acquisition rates for aircraft, missiles, ships, etc., are well below the steady-state rates needed to recapitalize aging equipment. Thus, modernization will be an important issue with the new Administration and the new Congress and moderate increases in military research and development and in procurement funding are expected.

The most significant DoD fighter modernization program is the Joint Strike Fighter (JSF), where Boeing is in competition for the follow-on phases of the program (Engineering & Manufacturing Development and Production). JSF variants are planned to replace aging aircraft in several United States and United Kingdom military services. U.S. aircraft being replaced include the F-16, A-10, A-6, and the AV-8B Harrier, while the United Kingdom intends to replace the Sea Harrier and GR7. Additionally, other U.S. allies have voiced interest in the JSF program, and the Company believes there will be a substantial international market for the low-cost, high-performance strike aircraft. The current DoD strategy for the JSF, which has a projected contract value for engineering and manufacturing development of up to $20 billion, is to have one prime contractor, with the selection scheduled to occur in the fourth quarter of 2001. It is expected that the DoD procurement policy regarding JSF will continue to evolve.

The military's search for more economical maintenance of aging equipment has also led to privatization of some government activities and has opened areas of growth for the Company in aerospace support. The C-17 logistics support contract is an example of this trend.

The Company faces strong competition in all market segments. As the result of industry consolidation in the United States, DoD now relies on three principal prime contractors to supply military hardware: Boeing, Lockheed Martin and Raytheon. Given the small number of primes, the Company and its competitors often partner and serve as major suppliers to each other on a various number of programs. While there may be some further niche acquisitions and product portfolio exchanges at the prime contractor level, the major area for further consolidation is likely to be among subcontractors to the primes. General Electric has emerged as a dominant subcontractor with its acquisition of Honeywell. In addition, UK-based BAE Systems has pursued acquisitions in the United States, including the recent purchase of Lockheed Martin's Electronic Systems (Sanders) business. Internationally, Boeing faces strong competition primarily from Europe. The consolidation and rationalization of the European defense and space industry during the past decade has evolved into a defined end-state with two dominant companies: BAE Systems and the European Aeronautics Defence and Space Company (EADS). EADS is now the world's third largest aircraft and defense company behind Boeing and Lockheed Martin. Europe is also consolidating within market segments with the creation of Matra BAE Dynamics Alenia (MBDA) as the primary European weapons provider and Agusta Westland as a single European rotorcraft entity. In response to emerging opportunities and competitive pressures internationally, Boeing is actively pursuing a globalization strategy aimed at improving the Company's competitive position. In Europe, Boeing continues to explore transatlantic partnerships on several programs in the Company's markets of interest. In Asia, Boeing is seeking to expand alliances with indigenous military suppliers in the region.

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, which include maintenance and modification, training systems, support systems, support services, and spares, repairs and supply chain management. Several programs 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. Foreign sales approved by the U.S. Government are extending some product lines, such as the Harpoon missile, the AH-64 and CH-47 helicopters. Other programs include those that are transitioning to low-rate initial production, such as the F-22 Raptor, those that are still in development, such as the RAH-66 rotorcraft, or in competitive development, such as the Joint Strike Fighter. The Joint Strike Fighter program consists of three variants, which includes a conventional takeoff and landing (CTOL) airplane for the U.S. Air Force to replace the F-16 and A-10, a carrier-based strike fighter for the U.S. Navy to replace the A-6, and a short takeoff and vertical landing (STOVL) for the U.S. Marine Corps to replace the AV-8B Harrier. The STOVL variant is also planned to replace the U.K. Royal Navy Sea Harrier and the Royal Air Force GR7.

The basic strategy of the Military Aircraft and Missiles segment is to provide competitive products and services in every selected market. Over time, success in improving the competitive position and market share depends on the ability to provide integrated product and service solutions that best meet customer needs. A real-world implementation of this strategy is provided by the Joint Strike Fighter program, where the Company's "total system" approach will modernize the service's tactical forces at the lowest cost, with low-risk and designed-in growth capacity, while providing a system that surpasses current aircraft in performance, mission effectiveness and supportability.

Space and Communications Business Environment and Trends

There are four major addressable markets for the Space and Communications segment: launch services, information and communications, human space flight and exploration, missile defense and space control.

Many environmental factors affect the outlook for the launch services business. The near-term softening of the non-geostationary satellite launch market and the resulting forecast of excess capacity in launch vehicle supply will continue to create a highly competitive atmosphere where capability, service availability, reliability, and affordability will be critical success factors. With the Delta family and Sea Launch commercial launch vehicles the Company is well positioned to respond to these changing market conditions. As the launch market continues to evolve, the Space and Communications segment is prepared to play a major role in NASA-driven and industry-driven advanced space transportation technology developments.

The information and communications market targets both government and commercial customers. This market offers the largest opportunity for growth for the Space and Communications segment. The government segment includes airborne mission systems, space systems, satellite systems, and integrated systems-of-systems opportunities. The commercial segment includes satellite manufacturing, hybrid network systems, and telecommunications opportunities. Products serving these markets require strong customer-focused solutions and seamless interfaces with multiple systems and applications. The Space and Communication segments experience in large-scale systems integration projects, along with related expertise in satellite system development and manufacturing and on programs such as Airborne Warning and Control System, will provide the leverage necessary to expand in this market.

The human space flight and exploration market is forecast to be relatively flat over the next ten years. This forecast is based on budget projections for NASA, the primary customer for this market. The near-term focus will be on the successful completion and assembly of the International Space Station (ISS), for which Boeing is the prime contractor. NASA is expected to award contracts for the Crew Return Vehicle and the operations and utilization of ISS. The Space and Communications segment is well positioned to pursue these contracts. Additionally, the Space Shuttle continues to remain the only U.S. vehicle to support human space access, and Boeing plays a key role in Shuttle operations and maintenance through United Space Alliance, the Company's joint venture arrangement with Lockheed Martin. The one-hundredth space shuttle mission was flown in 2000. NASA is expected to pursue future funding for long-term space exploration once the ISS has been assembled.

Funding for the missile defense and space control market is primarily driven by U.S. Government development and procurement budgets. Market components include national missile defense, theater missile defense (weapons and systems of systems solutions) along with space control. The prime contractor role on the National Missile Defense program will demonstrate the Company's ability to provide a system of systems solution for national defense. Accomplishments on the PAC-3 (Patriot Advanced Capability missile) program, and the Theater High Altitude Area Defense program has established the Space and Communications segment as a major player in the missile defense market. We have also established a strong technical position in the emerging laser system applications market. Boeing is well positioned to lead in the missile defense marketplace.

Strategic Investments for Long-Term Value

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.

The Company continues to invest in the development of the Delta IV expendable launch vehicle. The Sea Launch joint venture offers automated commercial satellite launches from a seagoing launch platform. These products give the Space and Communications segment greater access to a portion of the launch market that was previously unavailable with the Delta II rocket alone. The Company also continues to invest in the development of the Airborne Early Warning & Control systems platform. These investments will also provide leverage in the development of other information, communication and battle management applications.

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 resources invested in education and training, restructuring of processes, new technology, and organizational realignment. Recent commercial and government developmental programs, such as the 767-400ER, 737-900 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 across the enterprise. Efforts are underway on part number reduction, reducing cycle time and maximizing the value of airplane change. The initiatives will enhance the Company's 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 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 the 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 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 companywide. 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 Engineering, Production Operations, Finance, 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 companywide 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. Effective for 2000, with first payout in 2001, the Company announced an incentive plan that will provide annual cash rewards to non-union, non-executive 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. During 2000, portions of the Performance Shares granted in 1999 and 2000 were converted to common stock. Any Performance Shares not converted to common stock after five years from date of grant will expire. This plan is intended to increase executive management's focus on improving shareholder value.

The Company is organized based on the products and services 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, satellites and 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. In October 2000, the Company announced the creation of two new business units: Connexion by Boeing℠ and Air Traffic Management. These business units are included in the segment information for Space and Communications and Commercial Airplanes.

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, performance issues with key suppliers and subcontractors and the cost and availability of energy resources, such as electrical power. Aircraft programs, particularly 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 the launch customers' access to capital markets. Additionally, some of the Company's competitors for launch services receive direct or indirect government funding.

Risk associated with the Customer and Commercial Financing/Other segment includes interest rate risks, asset valuation risks, and credit and collectability risks of counterparties.

As of December 31, 2000, the Company's principal collective bargaining agreements were with the International Association of Machinists and Aerospace Workers (IAM), representing 26% of employees (current agreements expiring May 2001, September 2002, and October 2002); the Society of Professional Engineering Employees in Aerospace (SPEEA), representing 13% of employees (current agreements will expire in December 2002 and a contract with a new unit is now under negotiation); the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), representing 5% of employees (current agreements expiring September 2002, May 2003, and April 2004); and Southern California Professional Engineering Association (SCPEA), representing 3% 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,	2000	1999	1998
Asia, other than China	$ 5,568	$10,776	$14,065
China	1,026	1,231	1,572
Europe	9,038	9,678	8,646
Oceania	887	942	844
Africa	542	386	702
Western Hemisphere, other than the United States	559	461	701
	17,620	23,474	26,530
United States	33,701	34,519	29,624
Total sales	$51,321	$57,993	$56,154

Military Aircraft and Missiles segment and Space and Communications segment combined sales were approximately 13%, 17% and 16% of total sales in Europe for 2000, 1999 and 1998, respectively. Defense sales were approximately 9%, 17% 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 34%, 25% and 26% of consolidated sales for 2000, 1999 and 1998, respectively.

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 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 revenues and operating profits 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 revenues for these transfers are eliminated in the 'Accounting differences/eliminations' caption. In the event an airplane accounted for as an operating lease is subsequently sold, the 'Accounting differences/eliminations' caption would reflect the recognition of revenue and operating profit for the consolidated financial statements.

The Company records cost of sales for 7-series commercial airplane programs under the program method of accounting described in Note 1. For internal measurement purposes, the Commercial Airplanes segment records cost of sales based on the cost of specific units delivered, and to the extent that inventoriable costs exceed estimated revenues, a loss is not recognized until delivery is made, which is not in accordance with generally accepted accounting principles. For the 717 program, the cost of the specific units delivered is reduced, on a per-unit basis, by the amount previously recognized for forward losses. Proceeds from certain Commercial Airplanes segment suppliers attributable to participation in development efforts are accounted for as a reduction in the cost of inventory received from the supplier under the program accounting method, and as an expense reduction in the period the proceeds are received for internal measurement purposes. These adjustments between the internal measurement method and the program accounting method are included in the 'Accounting differences/eliminations' caption of net earnings. These adjustments totaled $(637), $(304) and $514 for the years ended December 31, 2000, 1999 and 1998, respectively.

Customer advance payments prior to delivery may be delayed or contractually deferred from a baseline schedule, resulting in the recognition of interest income. Beginning in 2000, revenues and income resulting from deferred customer advances were identified to the Commercial Airplanes segment, and had previously been identified to the Customer and Commercial Financing/Other segment. For the years 1999 and 1998, $66 and $118 of revenues and operating income had been reclassified from the Customer and Commercial Financing/Other segment to the Commercial Airplanes segment to conform with the 2000 presentation.

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 resulting from acquisitions prior to 1998. Unallocated assets primarily consist of cash and short-term investments, prepaid pension expense, goodwill acquired prior to 1998, 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-process research and development for the year ended December 31, 2000, included $505 associated with the Space and Communications segment and $52 associated with the Commercial Airplanes segment. These amounts are included in the respective segment's depreciation and amortization amounts on the following page.

(Dollars in millions) Year ended December 31,	Sales and Other Operating Revenues 2000	1999	1998
Commercial Airplanes	$31,171	$38,475	$36,998
Military Aircraft and Missiles	12,197	12,220	12,990
Space and Communications	8,039	6,831	6,889
Customer and Commercial Financing/Other	758	771	612
Accounting difference/ eliminations	(844)	(304)	(1,335)
	$51,321	$57,993	$56,154

Year ended December 31,	Net Earnings (Loss) 2000	1999	1998
Commercial Airplanes	$2,736	$2,082	$ (148)
Military Aircraft and Missiles	1,271	1,193	1,283
Space and Communications	(323)	415	248
Customer and Commercial Financing/Other	494	426	249
Accounting difference/ eliminations	(442)	(432)	372
Share-based plans	(316)	(209)	(153)
Unallocated expense	(362)	(305)	(284)
Earnings (loss) from operations	3,058	3,170	1,567
Other income, principally interest	386	585	283
Interest and debt expense	(445)	(431)	(453)
Earnings (loss) before taxes	2,999	3,324	1,397
Income taxes	871	1,015	277
	$2,128	$2,309	$1,120

Year ended December 31,	Research and Development 2000	1999	1998
Commercial Airplanes	$ 574	$ 585	$1,021
Military Aircraft and Missiles	262	264	304
Space and Communications	605	492	570
	$1,441	$1,341	$1,895

Year ended December 31,	Depreciation and Amortization 2000	1999	1998
Commercial Airplanes	$ 619	$ 595	$ 628
Military Aircraft and Missiles	208	201	208
Space and Communications	686	168	142
Customer and Commercial Financing/Other	159	163	135
Unallocated	364	518	509
	$2,036	$1,645	$1,622

(Dollars in millions)	Assets at December 31, 2000	1999	1998
Commercial Airplanes	$ 9,800	$ 8,075	$11,003
Military Aircraft and Missiles	3,321	3,206	3,560
Space and Communications	9,629	4,245	3,149
Customer and Commercial Financing/Other	6,959	6,004	5,751
Unallocated	12,319	14,617	13,561
	$42,028	$36,147	$37,024

	Liabilities at December 31, 2000	1999	1998
Commercial Airplanes	$ 7,972	$ 6,135	$ 6,907
Military Aircraft and Missiles	1,189	1,080	743
Space and Communications	2,903	1,350	1,452
Customer and Commercial Financing/Other	240	228	301
Unallocated	18,704	15,892	15,305
	$31,008	$24,685	$24,708

Year ended December 31,	Capital Expenditures, Net 2000	1999	1998
Commercial Airplanes	$237	$ 307	$ 754
Military Aircraft and Missiles	65	215	213
Space and Communications	438	585	339
Customer and Commercial Financing/Other	7	1	1
Unallocated	185	128	358
	$932	$1,236	$1,665

	Contractual Backlog at December 31 (Unaudited), 2000	1999	1998
Commercial Airplanes	$ 89,780	$72,972	$ 86,057
Military Aircraft and Missiles	17,113	15,691	17,007
Space and Communications	13,707	10,585	9,832
	$120,600	$99,248	$112,896

(Dollars in millions except per share data) Year ended December 31,	2000	1999	1998
Sales and other operating revenues	$51,321	$57,993	$56,154
Cost of products and services	43,712	51,320	50,492
	7,609	6,673	5,662
Equity in income (loss) from joint ventures	64	4	(67)
General and administrative expense	2,335	2,044	1,993
Research and development expense	1,441	1,341	1,895
In-process research and development expense	557		
Gain on dispositions, net	34	87	13
Share-based plans expense	316	209	153
Earnings from operations	3,058	3,170	1,567
Other income, principally interest	386	585	283
Interest and debt expense	(445)	(431)	(453)
Earnings before income taxes	2,999	3,324	1,397
Income taxes	871	1,015	277
Net earnings	$ 2,128	$ 2,309	$ 1,120
Basic earnings per share	$ 2.48	$ 2.52	$ 1.16
Diluted earnings per share	$ 2.44	$ 2.49	$ 1.15
Cash dividends per share	$ .59	$ .56	$ .56

See notes to consolidated financial statements.

(Dollars in millions except per share data)	December 31, 2000	1999
Assets		
Cash and cash equivalents	$ 1,010	$ 3,354
Short-term investments		100
Accounts receivable	4,928	3,453
Current portion of customer and commercial financing	995	799
Deferred income taxes	2,137	1,467
Inventories, net of advances and progress billings	6,794	6,539
Total current assets	15,864	15,712
Customer and commercial financing	5,964	5,205
Property, plant and equipment, net	8,814	8,245
Goodwill and acquired intangibles, net	5,214	2,233
Prepaid pension expense	4,845	3,845
Deferred income taxes	60	
Other assets	1,267	907
	$42,028	$36,147
Liabilities and Shareholders' Equity		
Accounts payable and other liabilities	$11,979	$11,269
Advances in excess of related costs	3,517	1,215
Income taxes payable	1,561	420
Short-term debt and current portion of long-term debt	1,232	752
Total current liabilities	18,289	13,656
Deferred income taxes		172
Accrued retiree health care	5,152	4,877
Long-term debt	7,567	5,980
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	2,693	1,684
Treasury shares, at cost—136,385,222 and 102,356,897	(6,221)	(4,161)
Retained earnings	12,090	10,487
Accumulated other comprehensive income	(2)	6
Unearned compensation	(7)	(12)
ShareValue Trust shares—39,156,280 and 38,696,289	(2,592)	(1,601)
Total shareholders' equity	11,020	11,462
	$42,028	$36,147

See notes to consolidated financial statements.

(Dollars in millions) Year ended December 31,	2000	1999	1998
Cash flows—operating activities:			
Net earnings	$ 2,128	$ 2,309	$ 1,120
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Share-based plans	316	209	153
Depreciation	1,317	1,538	1,517
Amortization of goodwill and intangibles	162	107	105
In-process research and development	557		
Customer and commercial financing valuation provision	13	72	61
Gain on dispositions, net	(34)	(87)	(13)
Changes in assets and liabilities—			
Short-term investments	100	179	450
Accounts receivable	(768)	(225)	(167)
Inventories, net of advances and progress billings	1,097	2,030	652
Accounts payable and other liabilities	(311)	217	(840)
Advances in excess of related costs	1,387	(36)	(324)
Income taxes payable and deferred	421	462	145
Other	(712)	(597)	(479)
Accrued retiree health care	269	46	35
Net cash provided by operating activities	5,942	6,224	2,415
Cash flows—investing activities:			
Customer financing and properties on lease, additions	(2,571)	(2,398)	(2,603)
Customer financing and properties on lease, reductions	1,433	1,842	1,357
Property, plant and equipment, net additions	(932)	(1,236)	(1,665)
Acquisitions, net of cash acquired	(5,727)		
Proceeds from dispositions	169	359	37
Net cash used by investing activities	(7,628)	(1,433)	(2,874)
Cash flows—financing activities:			
New borrowings	2,687	437	811
Debt repayments	(620)	(676)	(693)
Common shares purchased	(2,357)	(2,937)	(1,397)
Stock options exercised, other	136	93	65
Dividends paid	(504)	(537)	(564)
Net cash used by financing activities	(658)	(3,620)	(1,778)
Net increase (decrease) in cash and cash equivalents	(2,344)	1,171	(2,237)
Cash and cash equivalents at beginning of year	3,354	2,183	4,420
Cash and cash equivalents at end of year	$ 1,010	$ 3,354	$ 2,183

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(Dollars in millions / Shares in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital
Balance January 1, 1998	1,000,030	$5,000	$1,090
Shares issued for ShareValue Trust	11,253	56	494
Shares issued for share-based plans	587	3	
Share-based compensation			153
Treasury shares acquired			
Treasury shares issued for share-based plans, net			(43)
Tax benefit related to share-based 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	$1,147
Share-based compensation			209
Tax benefit related to share-based plans			9
ShareValue Trust market value adjustment			366
Treasury shares acquired			
Treasury shares issued for share-based 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
Share-based compensation			316
Tax benefit related to share-based plans			160
ShareValue Trust market value adjustment			991
Treasury shares acquired			
Treasury shares issued for share-based plans, net			(264)
Performance shares converted to deferred stock units			(194)
Shares acquired from dividend reinvestment			
Amortization and forfeitures—unearned compensation			
Net earnings			
Cash dividends declared			
Minimum pension liability adjustment, net of tax of $3			
Unrealized holding loss, net of tax of $7			
Currency translation adjustment			
Balance December 31, 2000	1,011,870	$5,059	$2,693

See notes to consolidated financial statements.

Treasury Stock		ShareValue Trust		Unearned Compensation	Accumulated Other Comprehensive Income	Retained Earnings	Comprehensive Income
Shares	Amount	Shares	Amount				
165	$ (9)	26,385	$(1,255)	$(20)	$ —	$ 8,147	
		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
			(991)				
41,782	(2,357)						
(7,754)	297						
		460					
				5			
						2,128	$2,128
						(525)	
					(4)		(4)
					(12)		(12)
					8		8
136,385	$(6,221)	39,156	$(2,592)	$ (7)	$ (2)	$12,090	$2,120

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.

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 scheduled performance 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 contracts are recorded as costs are incurred. Certain contracts contain profit incentives based upon performance relative to predetermined targets that may occur during or subsequent to delivery of the product. Incentives, which amounts can be reasonably estimated are recorded over the performance period of the contract. Incentives and fee awards, which amounts cannot be reasonably estimated, are recorded when awarded. 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 such contracts is determined based on the estimated average total contract cost and revenue.

Commercial aircraft programs are planned, committed and facilitized 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 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 initial program quantity for the 717 program has been established at 200 units. 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 net 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 net 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 net realizable value.

Share-Based Plans.

The Company has 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 distribution from the ShareValue Trust described in Note 18 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 described in Note 18 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 a five-year period.

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 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 a management plan for disposition.

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

Goodwill and Acquired Intangibles.

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 20 to 30 years. Recoverability of the unamortized goodwill and acquired intangibles balance is primarily based upon assessment of related operational cash flows.

Acquired intangibles and their associated lives, amortized on a straight-line method, include the following: developed technologies, 5 to 20 years; tradename, 20 years; data repositories, 15 to 20 years; assembled workforce, 5 to 15 years; product know-how, 15 to 20 years; and customer lists, 5 to 15 years.

Available-for-Sale Securities.

The Company holds certain common stock investments with a readily determinable fair market value. Under Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* such equity securities are carried as available for sale and reported at market value. These securities held by the Company are considered long term in nature and included in "Other assets" on the Consolidated Statements of Financial Position.

Note 2. Revenues and Costs Attributable to Customer and Commercial Financing

The years 2000, 1999 and 1998 include sales and other operating revenues of $803, $686 and $528 and cost of products and services of $259, $218 and $241 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. Net gains of $17 and $118 were recorded for sales of businesses in 2000 and 1999.

Note 4. Mergers and Acquisitions

Accounting for Acquisitions.

The Company's acquisitions in 2000 were accounted for under the purchase method. The purchase price of each acquisition was allocated to the net assets acquired based on estimates of their fair values at the date of the acquisition and was based on preliminary estimates that are subject to future adjustments. The excess of the purchase price over the fair values of the net tangible assets, identifiable intangible assets and liabilities acquired was allocated to goodwill, and is being amortized on a straight-line basis over 20 years. As discussed below, a portion of the purchase price for certain acquisitions was allocated to in-process research and development (IPR&D) which was immediately expensed. Results of operations for the newly acquired entities have been combined with those of the Company from the date of acquisition.

Significant Acquisitions.

The following is a summary of the Company's significant acquisitions in 2000 along with the purchase price and the allocation of the purchase price to IPR&D and intangible assets.

	Purchase Price	IPR&D	Goodwill	Other Intangible Assets
Hughes space and communications businesses	$3,849	$500	$740	$631
Jeppesen Sanderson Inc.	1,524	45	772	663
Continental Graphics Corp.	183	7	49	80
Autometric Inc.	119	5	58	41

On October 6, 2000, the Company acquired Hughes space and communications businesses and related operations. The new entity will be operated as a wholly owned subsidiary named Boeing Satellite Systems, Inc. (BSS). BSS provides space-based communications, reconnaissance, surveillance and imaging systems. BSS also manufactures commercial communications satellites. Also included in the acquisitions are Hughes Electron Dynamics, a supplier of electronic components for satellites; Spectrolab, a provider of solar cells and panels for satellites; and a share of HRL Laboratories, a research center. Net tangible assets acquired included property, plant, and equipment of $824; and prepaid pension assets of $626.

On October 4, 2000, the company acquired Jeppesen Sanderson Inc., a provider of flight information services. Jeppesen Sanderson Inc. provides a full range of print and electronic flight information services, including navigation data, computerized flight planning, aviation software products, aviation weather services, maintenance information, and pilot training systems and supplies.

On September 1, 2000, the Company acquired Continental Graphics Corp., a provider of technical information to the aviation industry, and on August 2, 2000, the Company acquired Autometric Inc., a geospatial information technology company.

In-Process Research and Development.

The fair value amount of $500 of in-process research and development (IPR&D) attributed to the Hughes acquisition discussed below was determined by an independent valuation using the income approach.

Thirteen projects were included in the valuation, of which the principal projects were based on the following: technologies associated with high-efficiency solar cells and satellite battery technology ($189), phased array and digital processing technology to provide high-speed broadband service ($89), and xenon-ion systems for satellite engine propulsion ($82). The fair value of identifiable intangibles was also determined by an independent valuation primarily using the income approach. The following risk-adjusted discount rates were used to discount the project cash flows: solar cells and satellite battery technology, 17%; phased array and digital processing technology to provide high-speed broadband service, 18%; xenon-ion systems for satellite engine propulsion, 18%; all other projects, 18.2% weighted average. Operating margins were assumed to be similar to historical margins of similar products. The size of the applicable market was verified for reasonableness with outside research sources. The projects were in various stages of completion ranging from approximately 31% to 92% complete as of the valuation date, with specific percentages complete by project as follows: solar cells and satellite battery technology, 49%; phased array and digital processing technology, 87%; xenon-ion systems for satellite engine propulsion, 82%. The stage of completion for each project was estimated by evaluating the cost to complete, complexity of the technology and time to market. The projects are anticipated to be completed between 2001 and 2003. The estimated cost to complete the projects is $80.

The discount rates above are higher than the Company's weighted average cost of capital due to the inherent uncertainties in the estimates described above, including the uncertainty surrounding the successful completion of the purchased in-process technology, the useful life of such technology, the profitability levels of such technology and the uncertainty of the timing of the related product introduction and then-existing competing products. If these projects are not successfully developed, the future revenue and profitability of Boeing Satellite Systems may be adversely affected. Additionally, the value of the other intangible assets acquired may become impaired.

The fair value amount of $45 of in-process research and development (IPR&D) attributed to the acquisition of Jeppesen Sanderson Inc., was determined by an independent valuation. The acquired in-process research and development technology consists primarily of three software projects that will work together to store information and extract it for use in various products sold by Jeppesen. The technology will allow the manufacture of end user aeronautical information both backwards and forwards in time, and will allow the extraction of the information on a near real-time basis. Furthermore, the technology will allow the creation of packages of aeronautical information derived from a single source of database information, which can be tailored to individual customers or can be packaged as a new product. These database and extraction capabilities are required in developing new and enhanced charting and mapping products for customers worldwide. These acquired in-process research and development projects are expected to be complete by mid-2001; however, full range and production of the

technology is anticipated in the first quarter of 2002. The technology, once completed, can only be used for its specific and intended purpose and as such no alternative future uses exist. The valuation methodology was determined using the income approach, and a risk-adjusted discount rate of 15% was used to discount the project cash flow. As of the date of the acquisition, Jeppesen had incurred approximately $14 in costs related to IPR&D projects. The estimated cost to complete the projects was $7.

Pro Forma Combined Operating Results.

Pro forma combined operating results for 2000 and 1999, which are presented solely as unaudited supplemental information and not necessarily indicative of what results would have been if the acquisitions discussed previously had been effective at the beginning of 1999, are as follows: sales of $52,848 and $60,531, net earnings of $2,141 and $2,295, and diluted earnings per share of $2.46 and $2.48.

Note 5. Equity in Income (Loss) from Joint Ventures

Equity in income (loss) from joint ventures represents the Company's share of income or losses from joint venture arrangements accounted for under the equity method.

The principal joint venture arrangements are United Space Alliance, FlightSafety Boeing Training International (FSBTI), and Sea Launch. The Company has a 50% partnership with Lockheed Martin 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. The Company is entitled to 50% of the earnings of FSBTI, a partnership with FlightSafety International Inc., which provides pilot and crew training. The Company has a 40% partnership in Sea Launch, a commercial satellite launch venture with Norwegian, Russian and Ukrainian partners. Losses associated with Sea Launch were $26, $57 and $86 for the years ended December 31, 2000, 1999 and 1998 respectively.

As of December 31, 2000 and 1999, other assets included $272 and $164 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, 2000, 1999 and 1998, are as follows:

	2000	1999	1998
Basic shares	859.5	917.1	966.9
Diluted shares	871.3	925.9	976.7

Basic earnings per share are calculated based on the weighted average number of shares outstanding, excluding treasury shares and 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 stock option and stock unit plans computed using the treasury stock method, plus contingently issuable shares from other share-based plans on an as-if converted basis.

Note 7. McDonnell Douglas Products Valuation Adjustment

In 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 a provision aggregating $1,400 relative to these decisions. The provisions attributable to the commercial airplane programs included $209 related to contractual supplier termination liabilities and $60 related to employee severance liabilities, which were substantially liquidated as of December 31, 2000.

Contractual termination liabilities as of December 31, 2000 and 1999, were as follows:

	2000	1999
Beginning balance	$147	$178
Payments	(80)	(24)
Changes in estimate	(7)	(7)
Ending balance	$ 60	$147

Changes in supplier termination liability estimates result from continued negotiations with suppliers, which are expected to complete in 2002.

Note 8. Accounts Receivable

Accounts receivable at December 31 consisted of the following:

	2000	1999
U.S. Government contracts	$2,693	$1,970
Other	2,235	1,483
	$4,928	$3,453

Accounts receivable included the following as of December 31, 2000 and 1999: amounts not currently billable of $616 and $401 relating primarily to sales values recorded upon attainment of performance milestones that differ from contractual billing milestones and withholds on U.S. Government contracts ($487 and $214 not expected to be collected within one year); $172 and $51 relating to claims and other amounts on U.S. Government contracts subject to future settlement ($56 and $32 not expected to be collected within one year); and $169 and $46 of other receivables not expected to be collected within one year.

Note 9. Inventory

Inventories at December 31 consisted of the following:

	2000	1999
Commercial aircraft programs and long-term contracts in progress	$ 19,399	$ 19,537
Commercial spare parts, general stock materials and other	1,972	2,042
	21,371	21,579
Less advances and progress billings	(14,577)	(15,040)
	$ 6,794	$ 6,539

As of December 31, 2000, 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.

Inventory costs at December 31, 2000, included unamortized tooling of $1,135 and $447 relating to the 777 and Next-Generation 737 programs respectively, and excess deferred production costs of $1,121 and $635 relating to the 777 and 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 and excess deferred production costs of $1,507 and $646 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, 2000; 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 $12, $17 and $20 in 2000, 1999 and 1998, respectively.

As of December 31, 2000 and 1999, 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:

	2000	1999
Aircraft financing		
Notes receivable	$ 593	$ 781
Investment in sales-type/financing leases	1,119	1,497
Operating lease equipment, at cost, less accumulated depreciation of $305 and $304	3,098	2,357
Commercial equipment financing		
Notes receivable	915	730
Investment in sales-type/financing leases	697	506
Operating lease equipment, at cost, less accumulated depreciation of $95 and $92	710	408
Less valuation allowance	(173)	(275)
	$6,959	$6,004

Customer and commercial financing assets that are leased by the Company under capital leases and have been subleased to others totaled $461 and $502 as of December 31, 2000 and 1999, respectively. 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
2001	$459	$536	$ 644
2002	106	281	521
2003	95	230	481
2004	150	208	405
2005	229	181	377
Beyond 2005	469	789	2,738

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

	2000	1999
Minimum lease payments receivable	$2,225	$2,382
Estimated residual value of leased assets	545	479
Unearned income	(954)	(858)
	$1,816	$2,003

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 $54 of customer financing receivables as of December 31, 2000. These swaps were settled on January 2, 2001.

Interest rates on fixed-rate notes ranged from 7.17% to 15.01%, and effective interest rates on variable-rate notes ranged from .81% to 5.5% 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:

	2000	1999
Land	$ 460	$ 430
Buildings	9,241	8,148
Machinery and equipment	10,378	10,411
Construction in progress	891	1,130
	$ 20,970	$ 20,119
Less accumulated depreciation	(12,156)	(11,874)
	$ 8,814	$ 8,245

Balances are net of impairment asset valuation reserve adjustments for real property available for sale of $41 and $76 for December 31, 2000 and 1999.

Depreciation expense was $1,159, $1,330 and $1,386 for 2000, 1999 and 1998, respectively. Interest capitalized as construction-period property, plant and equipment costs amounted to $70, $64 and $45 in 2000, 1999 and 1998, respectively.

Rental expense for leased properties was $280, $320 and $349 for 2000, 1999 and 1998, 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 $1,081 at December 31, 2000. Payments, net of sublease amounts, due during the next five years are as follows:

2001	2002	2003	2004	2005
$218	$181	$142	$126	$110

Note 12. Goodwill and Acquired Intangibles

Goodwill and acquired intangibles as of December 31 consisted of the following:

	2000	1999
Goodwill	$4,189	$2,490
Acquired intangibles	1,415	
Accumulated amortization	(390)	(257)
Net goodwill and acquired intangibles	$5,214	$2,233

For the year ended December 31, 2000, the amortization of goodwill and acquired intangibles by segment was as follows: Commercial Airplanes, $22; Space and Communications, $28; and unallocated, $83. For the years ended December 31, 1999 and 1998, goodwill amortization of $83 and $83 was identified as unallocated.

Note 13. Income Taxes

The provision for taxes on income consisted of the following:

Year ended December 31,	2000	1999	1998
U.S. Federal			
Taxes paid or currently payable	$1,517	$ 349	$ 352
Change in deferred taxes	(770)	534	(123)
	747	883	229
State			
Taxes paid or currently payable	246	55	51
Change in deferred taxes	(122)	77	(3)
	124	132	48
Income tax provision	$ 871	$1,015	$ 277

The following is a reconciliation of the tax derived by applying the U.S. federal statutory rate of 35 percent to the earnings before income taxes and comparing that to the recorded income tax provision:

	2000	1999	1998
U.S. federal statutory tax	$1,050	$1,163	$ 489
Foreign Sales Corporation tax benefit	(291)	(230)	(130)
Research benefit		(24)	(70)
Prior years' research benefit settlement			(57)
Prior years' tax adjustment			(8)
Nondeductibility of goodwill	37	31	31
State income tax provision, net of effect on U.S. federal tax	80	86	31
Other provision adjustments	(5)	(11)	(9)
Income tax provision	$ 871	$1,015	$ 277

At December 31, the deferred tax assets, net of deferred tax liabilities, resulted from temporary differences associated with the following:

	2000	1999
Inventory and long-term contract methods of income recognition	$ 1,349	$ 634
In-process research and development related to acquisitions	208	
Pension benefit accruals	(1,491)	(1,215)
Retiree health care accruals	1,977	1,821
Other employee benefits accruals	741	565
Customer and commercial financing	(597)	(510)
Other comprehensive income provision	10	
Net deferred tax assets	$ 2,197	$ 1,295

The temporary 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 1991. 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 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 $405, $575 and $85 in 2000, 1999 and 1998, respectively.

Note 14. Accounts Payable and Other Liabilities

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

	2000	1999
Accounts payable	$ 5,040	$ 4,909
Accrued compensation and employee benefit costs	2,938	2,421
Lease and other deposits	731	647
Dividends payable	149	128
Other	3,121	3,164
	$11,979	$11,269

As of December 31, 2000, the Company has issued 6,906,200 stock units that are convertible to either stock or a cash equivalent, of which 5,901,774 are vested, and the remainder vest with employee service. These stock units principally represent a method of deferring employee compensation by which a liability is established based upon the current stock price. An expense is recognized associated with the change in that liability balance and is recorded as general and administrative expense. This liability balance was $390 and $68 as of December 31, 2000 and 1999, respectively, and was included in accrued compensation and employee benefit costs.

Note 15. Debt

Debt at December 31 consisted of the following:

	2000	1999
Unsecured debentures and notes:		
$200, 8.25% due Jul. 1, 2000	$ —	$ 200
$174, 8⅜% due Feb. 15, 2001	174	177
$49, 7.565% due Mar. 30, 2002	49	52
$120, 9.25% due Apr. 1, 2002	120	120
$300, 6¾% due Sep. 15, 2002	299	298
$300, 6.35% due Jun. 15, 2003	300	300
$200, 7⅞% due Feb. 15, 2005	206	207
$300, 6⅝% due Jun. 1, 2005	294	293
$250, 6.875% due Nov. 1, 2006	248	248
$175, 8 1/10% due Nov. 15, 2006	175	175
$350, 9.75% due Apr. 1, 2012	348	348
$400, 8¾% due Aug. 15, 2021	398	398
$300, 7.95% due Aug. 15, 2024	300	300
$250, 7¼% due Jun. 15, 2025	247	247
$250, 8¾% due Sep. 15, 2031	248	248
$175, 8⅝% due Nov. 15, 2031	173	173
$300, 6⅝% due Feb. 15, 2038	300	300
$100, 7.50% due Aug. 15, 2042	100	100
$175, 7⅞% due Apr. 15, 2043	173	173
$125, 6⅞% due Oct. 15, 2043	125	125
Senior debt securities		
6.0%–9.4% due through 2011	1,563	30
Senior medium-term notes,		
5.6%–10.0% due through 2017	1,775	1,426
Subordinated medium-term notes		
6.4%–8.3% due through 2004	25	45
Capital lease obligations due through 2008	380	386
Other notes	779	363
	$8,799	$6,732

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:

2001	2002	2003	2004	2005
$538	$1,176	$832	$202	$1,209

The company has $3,000 currently available under credit line agreements, which includes $1,000 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 currently has an effective shelf registration with the Securities and Exchange Commission totaling $2,640. From this $2,640 shelf, on September 17, 2000, $1,500 was issued in Senior Global Notes consisting of three tranches: $500 2-year variable rate notes (variable rate is based upon a 3 month LIBOR, reset quarterly, plus 9 basis points), $500 5-year 7.10% fixed rate notes, and $500 10-year 7.375% fixed rate notes. The remaining $1,140 was allocated to a new Medium-Term Note (MTN) Program made effective August 31, 2000. As of December 31, 2000, BCC had issued and sold $500 in aggregate principal amounts of such notes, at interest rates ranging from 6.35% to 6.68% and with maturities ranging from one to seven years.

At December 31, 2000 and 1999 borrowing under commercial paper and uncommitted short-term bank facilities totaling $653 and $228 were supported by available unused commitments under the revolving credit agreement. Total consolidated debt attributable to BCC amounted to $4,318 and $2,058 as of December 31, 2000 and 1999, respectively.

The $100 note due August 15, 2042, with a stated rate of 7.50% was issued to a private investor in connection with an interest rate swap arrangement that resulted in an effective synthetic rate of 7.865%. This swap arrangement was terminated on December 19, 2000. Additionally, BCC has interest rate swaps totaling $639 relating to capital lease obligations and $310 relating to medium-term and senior notes. Of the swaps attributable to capital lease obligations: $347 have a receive rate that is floating based on LIBOR and a pay rate that is fixed; and $292 have a receive rate that is fixed, and a pay rate that is floating based on LIBOR. Of the swaps attributable to medium-term and senior notes: $280 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 and senior notes are settled on the same dates interest is due on the underlying obligations.

BCC has available approximately $60 in uncommitted, short-term bank credit facilities whereby BCC may borrow, at interest rates which are negotiated at the time of the borrowings, upon such terms as BCC and the banks may mutually agree. At December 31, 2000 and 1999, borrowings on these credit facilities totaled $0 and $90, respectively. The weighted average interest rate on short-term borrowings at December 31, 1999, was 6.0%.

Total debt interest, including amounts capitalized, was $527, $512 and $518 for the years ended December 31, 2000, 1999 and 1998, and interest payments were $599, $517 and $514, respectively.

Short-term debt and current portion of long-term debt as of December 31, 2000, consisted of the following: $179 of unsecured debentures and notes, $311 of senior debt securities, senior medium-term notes, subordinated medium-term notes, $51 of capital lease obligations, and $691 of other notes.

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	
	2000	1999	2000	1999
Benefit obligation				
Beginning balance	$ 27,621	$28,887	$ 5,569	$ 4,418
Service cost	636	651	138	111
Interest cost	2,079	1,879	418	302
Plan participants' contributions	1	2		
Amendments	196	52	(178)	
Actuarial loss (gain)	(666)	(2,098)	539	1,036
Acquisitions/dispositions, net	1,160	(17)	129	
Benefits paid	(1,925)	(1,735)	(347)	(298)
Ending balance	$ 29,102	$27,621	$ 6,268	$ 5,569
Plan assets—fair value				
Beginning balance	$ 37,026	$32,609	$ 22	
Acquisitions/dispositions, net	1,684	(143)		
Actual return on plan assets	6,022	6,242	2	
Company contribution	30	22	10	
Plan participants' contributions	1	2		
Benefits paid	(1,898)	(1,716)	(4)	
Exchange rate adjustment	(9)	10		
Ending balance	$ 42,856	$37,026	$ 30	
Reconciliation of funded status to net amounts recognized				
Funded status—plan assets in excess of (less than) projected benefit obligation	$ 13,754	$ 9,405	$(6,238)	$(5,569)
Unrecognized net actuarial loss (gain)	(10,652)	(7,234)	1,484	1,063
Unrecognized prior service costs	1,427	1,418	(502)	(371)
Unrecognized net transition asset	(30)	(135)		
Adjustment for fourth quarter contributions	8	4	93	
Net amount recognized	$ 4,507	$ 3,458	$(5,163)	$(4,877)
Amount recognized in statement of financial position				
Prepaid benefit cost	$ 4,845	$ 3,845		
Intangible asset	69	64		
Accumulated other comprehensive income	8	1		
Accrued benefit liability	(415)	(452)	$(5,163)	$(4,877)
Net amount recognized	$ 4,507	$ 3,458	$(5,163)	$(4,877)

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

Year ended December 31,	2000	1999	1998
Components of net periodic benefit cost—Pensions			
Service cost	$ 636	$ 651	$ 573
Interest cost	2,079	1,879	1,793
Expected return on plan assets	(3,117)	(2,689)	(2,507)
Amortization of transition asset	(103)	(106)	(86)
Amortization of prior service cost	149	139	101
Recognized net actuarial loss (gain)	(72)	1	5
Net periodic benefit income	$ (428)	$ (125)	$ (121)

Year ended December 31,	2000	1999	1998
Components of net periodic benefit cost—OPB			
Service cost	$138	$111	$ 81
Interest cost	419	302	271
Expected return on plan assets	(2)	(2)	
Amortization of prior service cost	(66)	(47)	(45)
Recognized net actuarial loss (gain)	44	10	(16)
Net periodic benefit cost	$533	$374	$291

Weighted average assumptions as of December 31,	2000	1999	1998
Discount rate: pensions and OPB	7.75%	7.50%	6.50%
Expected return on plan assets	9.25%	9.00%	8.75%
Rate of compensation increase	5.50%	5.50%	4.50%

Effect of 1% change in assumed health care costs	2000	1999	1998
Effect on total of service and interest cost			
1% increase	$ 64	$ 51	$ 44
1% decrease	(57)	(44)	(39)
Effect on postretirement benefit obligation			
1% increase	603	530	452
1% decrease	(517)	(474)	(406)

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-represented employees of pre-merger Boeing and McDonnell Douglas. Assets and liabilities associated with benefits earned through 1998 were transferred to the new plans, which will 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-represented employees covered under the BNA Retirement Plan were transferred to the new pension plan created for the pre-merger Boeing employees.

Effective October 6, 2000, the Company acquired a substantial portion of Hughes' pension assets and liabilities. The acquired pension plans assets exceeded liabilities by $626. This acquisition comprised a substantial portion of the year 2000 "Acquisition/disposition, net" activity shown previously.

The Company has certain unfunded and partially funded plans with a projected benefit obligation of $488 and $432, plan assets of $17 and $43, and unrecognized prior service costs and actuarial losses of $125 and $124 as of December 31, 2000 and 1999. The net provision for these plans was $56, $63 and $52 for 2000, 1999 and 1998, respectively.

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 2000, 1999 and 1998 was $406, $409 and $417, 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 9.5% annual rate for 2000, decreasing to a 5.5% annual growth rate by 2010. In 1999, benefit costs for retiree health care were calculated based on an annual growth rate of 10%, decreasing to a 5.5% 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 amounted to 145,899,000 shares. This repurchase program was completed in 2000. In December 2000 an additional repurchase program was authorized by the Board of Directors. Under this resolution, management is authorized to repurchase up to 85,000,000 shares.

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.

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 issue 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, at 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.

During 2000, 75% of the Performance Share awards expiring February 22, 2004, were converted to common stock or deferred stock units (cumulative 3,402,874 Performance Shares), and 55% of the Performance Share awards expiring February 28, 2005, were converted to common stock or deferred stock units (cumulative 3,495,725 Performance Shares).

The following table summarizes information about Performance Shares outstanding at December 31, 2000, 1999 and 1998. Shares outstanding are not reduced for cumulative Performance Shares converted to common stock or deferred stock units.

(Shares in thousands) Grant Date	Expiration Date	Issue Price	Performance Shares Outstanding 2000	1999	1998
2/23/98	2/23/03	$50 11/16	3,490	3,459	3,586
12/14/98		33 9/16		46	46
2/22/99	2/22/04	36 1/4	4,524	4,569	
2/28/00	2/28/05	37	5,032		
10/09/00	2/28/05	37	1,299		

The Company recognized share-based expense of $147, $77 and $38 for 2000, 1999 and 1998, respectively, attributable to Performance Shares.

Other Stock Unit Awards.

The total number of stock unit awards that are convertible only to common stock and not contingent upon stock price were 1,880,544, 1,629,945 and 1,161,652 as of December 31, 2000, 1999 and 1998, 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 appreciation in value above a 3% per annum threshold rate of return. As of December 31, 2000, the Trust held 39,156,280 shares of the Company's common stock, split equally between two funds, "fund 1" and "fund 2." If on June 30, 2002, the market value of fund 1 exceeds $949 (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, 2002, market value of fund 1 after distribution (if any) will be the basis for determining any potential distribution on June 30, 2006. Similarly, if on June 30, 2004, the market value of fund 2 exceeds $913, 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 dilutive shares associated with the ShareValue Trust are 5,049,765 at December 31, 2000.

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 attributable to the ShareValue Program of $72 for each year presented. The ShareValue Trust expense is 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, 61,000,000 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, 2000, no SARs have been granted under the 1997 Plan. The 1993 Incentive Stock Plan permitted the grant of options, SARs and stock to employees of the Company or its subsidiaries. The 1988 and 1984 stock option plans permitted the grant of options or SARs to officers or other key employees of the Company or its subsidiaries. No further grants may be awarded under these three plans.

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, 2000, a total of 594,000 shares had been granted and of those 151,892 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.

	2000		1999		1998	
(Shares in thousands)	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	29,228	$38.02	28,653	$36.03	27,705	$32.36
Granted	3,693	45.63	3,462	43.40	3,772	52.72
Exercised	(4,673)	28.30	(2,345)	22.03	(2,493)	20.77
Canceled or expired	(328)	46.20	(515)	39.33	(255)	46.35
Exercised as SARs	(16)	21.56	(27)	19.70	(76)	19.27
Outstanding at end of year	27,904	40.58	29,228	38.02	28,653	36.03
Exercisable at end of year	18,710	$37.32	19,749	$34.58	15,577	$29.57

As of December 31, 2000, 32,939,588 shares were available for grant under the 1997 Incentive Stock Plan, and 2,007,358 shares were available for grant under the Incentive Compensation Plan.

The following table summarizes information about stock options outstanding at December 31, 2000 (shares in thousands).

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$10 to $19	2,753	2.8	$16.00	2,753	$16.00
$20 to $29	4,208	3.5	$23.35	4,208	$23.35
$30 to $39	3,845	8.0	$39.17	1,333	$38.51
$40 to $49	7,337	6.8	$42.38	4,422	$41.86
$50 to $59	9,684	7.0	$54.03	5,994	$53.29
$60 to $69	77	10.1	$66.41	—	—
	27,904			18,710	

The Company has determined the weighted average fair values of stock-based arrangements granted, including ShareValue Trust, during 2000, 1999 and 1998 to be $18.18, $17.67 and $19.99, 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			Risk-Free
	Grant Date	Option Term	Volatility	Dividend Yield	Interest Rate
2000	6/21/00	9 years	22%	1.1%	6.1%
	10/9/00	9 years	23%	1.1%	5.8%
	10/10/00	9 years	23%	1.1%	5.8%
1999	6/28/99	9 years	22%	1.1%	6.3%
1998	4/13/98	9 years	20%	1.1%	5.9%

The Company recognized share-based expense of $41, $35 and $31 in 2000, 1999 and 1998, respectively, attributable to stock options with an offset to additional paid-in capital.

Note 19. Derivative Financial Instruments

The derivative financial instruments held by the Company at December 31, 2000, primarily consisted of simple and specifically tailored interest rate swaps and foreign currency forward contracts.

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, 15 and 22.)

The Company has foreign currency forward contracts that were entered into to hedge receipt and expenditure commitments made in foreign currencies. As of December 31, 2000, the notional amount of foreign currency forward contracts through 2003 was $484, with unrealized losses, net of unrealized gains, of $23. Additionally, at December 31, 2000, the Company had foreign currency forward contracts with a notional value of $247 that were carried at market value. The Company realized a net gain of $5 attributable to these currency forward contracts in 2000.

As of January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended. This standard requires that the statement of financial position reflect the current market price of derivatives. With the adoption of SFAS No. 133, the Company recognized a transition gain of $1 after tax, and an adjustment to accumulated other comprehensive income of a loss of $11 after tax.

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 2005 totaled $6,230 and $5,015 as of December 31, 2000 and 1999. 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 $288 and $212 as of December 31, 2000 and 1999.

The Company had financing commitments with TWA related to aircraft on order totaling $642 as of December 31, 2000. On January 10, 2001, TWA and certain of its domestic subsidiaries filed voluntary petitions in the U.S. District Court in Wilmington, Delaware for relief under Chapter 11 of the U.S. Bankruptcy Code. This action eliminated the Company's financing commitment.

Participations in customer financing receivables with third-party investors that involve interest rate terms different from the underlying receivables totaled $54 and $58 as of December 31, 2000 and 1999.

The Company's maximum exposure to credit-related losses associated with credit guarantees, without regard to collateral, totaled $655 ($261 associated with commercial aircraft and collateralized) and $725 ($336 associated with commercial aircraft and collateralized) as of December 31, 2000 and 1999.

The Company's maximum exposure to losses associated with asset value guarantees, without regard to collateral, totaled $522 and $485 as of December 31, 2000 and 1999. These asset value guarantees relate to commercial aircraft and are collateralized.

As of December 31, 2000 and 1999, accounts payable and other liabilities included $468 and $561 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, 2000, off-balance-sheet financial instruments described in Note 20 predominantly related to commercial aircraft customers. Of the $11,887 in accounts receivable and customer financing included in the Consolidated Statements of Financial Position, $5,358 related to commercial aircraft customers and $2,693 related to the U.S. Government. Other than Trans World Airlines (TWA), discussed hereafter, 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 $5,358 of commercial accounts receivable and aircraft customer financing, $4,201 related to customers the Company believes have less than investment-grade credit. Similarly, of the $6,230 of irrevocable financing commitments related to aircraft on order including options, $5,388 related to customers the Company believes have less than investment-grade credit.

As of December 31, 2000, the Company had customer financing in place totaling $1,459 with TWA. The Company also had $642 of financing commitments that have been eliminated as a result of the proceedings noted below. On January 10, 2001, TWA and certain of its domestic subsidiaries filed voluntary petitions in the U.S. District Court in Wilmington, Delaware for relief under Chapter 11 of the U.S. Bankruptcy Code. TWA has received the Court's approval for an asset purchase agreement with American Airlines pursuant to section 363 of the bankruptcy code. The sale of TWA's assets to American is subject to, among other things, higher and better offers as a result of a bidding process plus Bankruptcy Court approval. TWA has received $200 in Debtor in Possession financing from American. This financing is intended to enable TWA's continued operation during the transition period.

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, 2000 and 1999, the carrying amount of accounts receivable was $4,928 and $3,453, and the fair value of accounts receivable was estimated to be $4,807 and $3,385. 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, 2000 and 1999, the carrying amount of debt, net of capital leases, was $8,419 and $6,346 and the fair value of debt, based on current market rates for debt of the same risk and maturities, was estimated at $8,866 and $6,393. 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, 2000.

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, 2000, 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, 2000, 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. Trial on all issues now is set for May 1, 2001. Final resolution of the A-12 litigation will depend on the outcome of such trial 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, 2000, 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. 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 the individual defendants, to benefit directly from the sale of Boeing stock during the period from April 7, 1997 through October 22, 1997. By order dated May 1, 2000, the Court certified two subclasses of plaintiffs in the action: a. all persons or entities who purchased Boeing stock or call options or who sold put options during the period from July 21, 1997, through October 22, 1997, and b. all persons or entities who purchased McDonnell Douglas stock on or after April 7, 1997, and who held such stock until it converted to Boeing stock pursuant to the merger. The plaintiffs seek compensatory damages and treble damages. The action now is set for trial on March 7, 2002. 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 charged one employee with participation in the alleged conspiracy. (The indictment has since been dismissed as against that employee but his dismissal is the subject of a pending appeal by the government to the U.S. Court of Appeals for the D.C. Circuit.) 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 have been 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.

On February 25, 2000, a purported class action lawsuit alleging gender discrimination and harassment was filed against The Boeing Company, Boeing North American, Inc., and McDonnell Douglas Corporation. The complaint, filed with the United States District Court in Seattle, alleges that the Company has engaged in a pattern and practice of unlawful discrimination, harassment and retaliation against females over the course of many years. The complaint, Beck v. Boeing, names 28 women who have worked for Boeing in the Puget Sound area; Wichita, Kansas; St. Louis, Missouri; and Tulsa, Oklahoma. On March 15, an amended complaint was filed naming an additional 10 plaintiffs, including the first from California. The lawsuit attempts to represent all women who currently work for the Company, or who have worked for the Company in the past several years (approximately 70,000).

The Company has denied the allegation that it has engaged in any unlawful "pattern and practice" and believes that the plaintiffs cannot satisfy the rigorous requirements necessary to achieve the class action status they seek. The deadline for filing plaintiffs' motion for class certification, originally scheduled to be heard on August 25, 2000, now has been extended until May 2001. The Company intends to vigorously contest this lawsuit.

In October 1999, a number of individual plaintiffs filed a federal court action alleging employment discrimination based upon race and national (sic) origin (Asian). This action was subsequently consolidated with a related suit making similar allegations and class action status was sought in a motion filed on January 3, 2001. The class for which certification is being sought would include all non-management salaried workers of Asian descent employed in Washington State. The action is limited to claims of alleged discrimination in compensation, promotion, transfer, retention rating, and job classification.

The Company has denied the allegations of discrimination and plans to oppose the motion for class certification and vigorously defend the lawsuit. The court's decision on class certification is anticipated to be issued as early as the second quarter of 2001.

Note 24. Segment Information

Segment information may be found on pages 72–74.

Quarterly Financial Data (Unaudited)

(Dollars in millions except per share data)	2000				1999			
Quarter	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Sales and other operating revenues	$14,693	$11,877	$14,841	$9,910	$15,200	$13,279	$15,122	$14,392
Earnings from operations	712	865	925	556	970	668	793	739
Net earnings	481	609	620	418	662	477	701	469
Basic earnings per share	0.57	0.71	0.71	0.48	0.75	0.52	0.75	0.50
Diluted earnings per share	0.55	0.70	0.71	0.48	0.74	0.52	0.75	0.50
Cash dividends per share	0.17	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Market price:								
High	70.94	66.94	42.25	48.13	46.44	48.50	45.88	37.69
Low	54.00	41.44	34.06	32.00	37.06	41.06	33.50	32.56
Quarter end	66.00	63.13	41.81	37.94	41.44	42.63	44.00	34.00

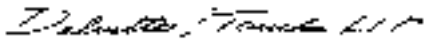
Independent Auditors' Report

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, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.



Deloitte & Touche LLP

Seattle, Washington
January 26, 2001

Report of Management

To the Shareholders of The Boeing Company:

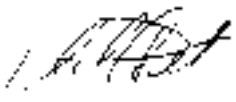
The accompanying consolidated financial statements of The Boeing Company and subsidiaries have been prepared by management who are responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and include amounts based on 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.

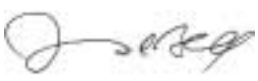


Philip M. Condit

Chairman of the Board and
Chief Executive Officer

Michael M. Sears

Senior Vice President and
Chief Financial Officer



James A. Bell

Vice President Finance and
Corporate Controller

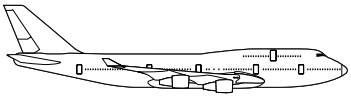
(Dollars in millions except per share data)	2000	1999	1998	1997	1996
Operations					
Sales and other operating revenues					
Commercial Airplanes[a]	$ 31,171	$38,475	$ 36,998	$ 27,479	$ 19,916
Military Aircraft and Missiles	12,197	12,220	12,990		
Space and Communications	8,039	6,831	6,889		
Information, Space and Defense Systems[b]	20,236	19,051	19,879	18,125	14,934
Customer and commercial financing, other	758	771	612	746	603
Accounting differences/eliminations	(844)	(304)	(1,335)	(550)	
Total	$ 51,321	$57,993	$ 56,154	$ 45,800	$ 35,453
Net earnings (loss)	$ 2,128	$ 2,309	$ 1,120	$ (178)	$ 1,818
Basic earnings (loss) per share	2.48	2.52	1.16	(0.18)	1.88
Diluted earnings (loss) per share	2.44	2.49	1.15	(0.18)	1.85
Cash dividends paid	$ 504	$ 537	$ 564	$ 557	$ 480
Per share	0.59	0.56	0.56	0.56	0.55
Other income, principally interest	386	585	283	428	388
Research and development expense	1,441	1,341	1,895	1,924	1,633
General and administrative expense	2,335	2,044	1,993	2,187	1,819
Additions to plant and equipment, net	932	1,236	1,665	1,391	971
Depreciation of plant and equipment	1,159	1,330	1,386	1,266	1,132
Employee salaries and wages	11,615	11,019	12,074	11,287	9,225
Year-end workforce	198,000	197,000	231,000	238,000	211,000
Financial position at December 31					
Total assets	$ 42,028	$36,147	$ 37,024	$ 38,293	$ 37,880
Working capital	(2,425)	2,056	2,836	5,111	7,783
Net plant and equipment	8,814	8,245	8,589	8,391	8,266
Cash and short-term investments	1,010	3,454	2,462	5,149	6,352
Total debt	8,799	6,732	6,972	6,854	7,489
Customer and commercial financing assets	6,959	6,004	5,711	4,600	3,888
Shareholders' equity	11,020	11,462	12,316	12,953	13,502
Per share	13.18	13.16	13.13	13.31	13.96
Common shares outstanding (in millions)[c]	836.3	870.8	937.9	973.5	967.2
Contractual backlog					
Commercial Airplanes	$ 89,780	$72,972	$ 86,057	$ 93,788	$ 86,151
Military Aircraft and Missiles	17,113	15,691	17,007		
Space and Communications	13,707	10,585	9,832		
Information, Space and Defense Systems	30,820	26,276	26,839	27,852	28,022
Total	$120,600	$99,248	$112,896	$121,640	$114,173

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

(a) For Commercial Airplanes segment sales and other operating revenues, year 1996 is reported in accordance with GAAP; years 2000, 1999, 1998, and 1997 are reported in accordance with segment reporting, as discussed in Note 24.

(b) The Information, Space, and Defense Systems segment of the Company was reorganized into two segments: the Military Aircraft and Missile Systems segment and the Space and Communications segment, which have been reported 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 and 1996.

(c) Computation excludes treasury shares and the outstanding shares held by the ShareValue Trust.

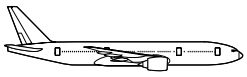


747-400

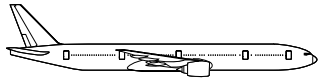
The Boeing 747-400

The 747-400 seats 416 to 568 passengers, depending on seating configuration and, with the recent launch of the Longer-Range 747-400, has a range of 8,850 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. Boeing continues to study 747 derivatives that will fly farther or carry more passengers to continue the 747 leadership in meeting the world's need for high-capacity, long-range airplanes.

Orders: 1,338* Deliveries: 1,261



777-200

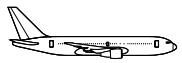


777-300

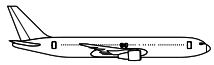
The Boeing 777-200 and 777-300

The 777-200, which seats 305 to 440 passengers depending on configuration, has a range of up to 5,925 miles. The 777-200ER (extended range) can fly the same number of passengers up to 8,861 miles. The 777-300 is about 33 feet longer than the -200 and can carry from 368 to 550 passengers, depending on seating configuration, with a range of 6,854 miles. The company recently introduced two longer-range 777s.

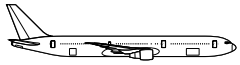
Orders: 563* Deliveries: 316



767-200



767-300

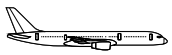


767-400

The Boeing 767-200, 767-300, and 767-400

The 767-200 will typically fly 181 to 224 passengers up to 7,618 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 first extended-range 767-400ERs were delivered to Delta Air Lines and Continental Airlines in August 2000. The airplane typically will carry between 245 and 304 passengers up to 6,501 miles. In a high-density inclusive tour arrangement, the 767-400ER can carry up to 375 passengers. Boeing committed to production in September 2000 a longer-range 767-400ER. This longer-range version is the same size as the 767-400ER, but has the equivalent range of the 767-300ER.

Orders: 901* Deliveries: 817



757-200

757-300

The Boeing 757-200 and 757-300

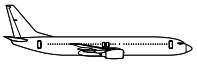
Seating 194 passengers in two classes, the 757-200 is ideal for high-demand, short-to-medium-range operations and can fly nonstop intercontinental routes up to 4,500 miles. It is also available in a freighter version. The 757-300 can carry 240 to 289 passengers on routes of up to 3,990 miles.

Orders: 1,027* Deliveries: 948

737-600

737-700

737-800

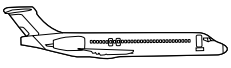


737-900

The Boeing 737-600, 737-700, 737-800 and 737-900

The Boeing 737 is the best-selling commercial jetliner of all time. The Next-Generation 737-600/-700/-800/-900 have outsold all other airplanes in their market segment. These new 737s incorporate advanced technology and design features that translate into cost-efficient, high-reliability operations and outstanding passenger comfort. The 737 is the only airplane family to span the entire 100-to-189-seat market, with maximum ranges from 3,159 (the -900) to 3,752 (the -700) miles. The 737 family also includes two Boeing Business Jets, derivatives of the 737-700 and -800.

Orders: 4,873* Deliveries: 3,857



717-200

The Boeing 717-200

The 717 twinjet meets the growing need worldwide for a 100-seat, high-frequency, short-range jet, flying a maximum range of 1,647 miles. The durable, simple, ultra-quiet and clean twinjet's effective use of technology results in the lowest operating costs.

Orders: 151* Deliveries: 44

Boeing Commercial Aviation Services

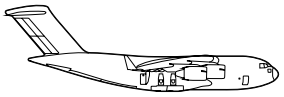
Boeing Commercial Aviation Services

Boeing Commercial Aviation Services provides the most complete portfolio of commercial aviation support products and services in the industry. This organization is an important component in the company's total solutions approach, and offers a wide range of products and services aimed at bringing even more value to our customers. This includes spare parts, airplane modification and engineering support, and a comprehensive worldwide customer support network. Commercial Aviation Services also oversees a number of joint ventures such as FlightSafetyBoeing Training International and wholly owned subsidiaries Jeppesen Sanderson Inc., Continental Graphics and The Preston Group.

* Orders and deliveries as of December 31, 2000.
Order numbers do not include options.

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 169,000 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. The United Kingdom is the C-17's first international customer.



C-17 Globemaster III

F/A-18E/F Super Hornet

The F/A-18E/F Super Hornet is the nation's newest, most advanced strike fighter, designed from its inception to perform both fighter (air-to-air) and attack (air-to-surface) missions. During 2000, deliveries continued ahead of schedule. The Super Hornet also received the 1999 Collier Trophy, and the U.S. Navy's highest possible grade for operational evaluation.

F/A-18E/F Super Hornet

Joint Strike Fighter

Boeing and the JSF One Team have developed an affordable multirole strike fighter to meet the tactical aircraft modernization needs of the U.S. Air Force, Navy and Marine Corps, and also the United Kingdom Royal Air Force and Royal Navy. Boeing is building and flight-testing two concept demonstration aircraft while also designing the operational JSF. During design and build of the aircraft, Boeing demonstrated the lean design and manufacturing processes that will keep JSF affordable for all military services. Selection of a single contractor to build as many as 3,000 of the multiservice fighters is scheduled for 2001.

JSF Preferred Weapon System Concept

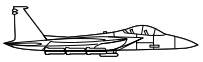
F-22 Raptor

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-representative test vehicles. The Raptor is meeting all performance requirements.

F-22 Raptor

F-15 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.



F-15 Eagle

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.

AV-8B Harrier II Plus

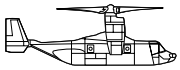
T-45 Goshawk

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. U.S. Navy and Marine Corps student naval aviators train in the T-45 at Naval Air Stations Meridian, Mississippi, and Kingsville, Texas.

T-45 Goshawk

V-22 Osprey

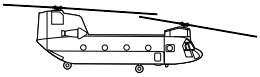
In partnership with Bell Helicopter Textron, Boeing has developed the V-22 Osprey tiltrotor aircraft. Low-rate initial production and flight testing have begun. Initial deliveries of 360 aircraft to the U.S. Marine Corps began in 1999. The U.S. Special Operations Command has 50 CV-22s on order.



V-22 Osprey

CH-47 Chinook

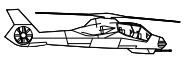
Preparation is under way for a new modernization program for the U.S. Army's CH-47 Chinook. The CH-47F is scheduled to enter the fleet in 2003 with several major system improvements. Under this program, Chinooks will remain in Army service at least until 2033 and will achieve an unprecedented 71-year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



CH-47 Chinook

RAH-66 Comanche

The 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 2001, the program will validate aircraft systems and prepare for development of 13 production-representative aircraft for operational test, evaluation and training.

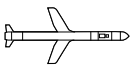


RAH-66 Comanche

AH-64D Apache Longbow

AH-64D Apache Longbow

The AH-64D Apache Longbow, an advanced version of the combat-proven AH-64A Apache, is the most lethal, survivable, deployable and maintainable multimission combat helicopter in the world. In addition to multiyear contracts from the U.S. Army for 501 Apache Longbow aircraft, Boeing is under contract to deliver advanced Apache aircraft to the Netherlands, Singapore and the United Kingdom. Egypt and Israel are finalizing agreements for new or remanufactured AH-64Ds, and several other nations are considering the Apache Longbow for their defense forces.



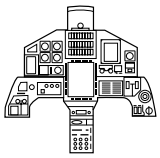
SLAM-ER

JDAM

CALCM

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.



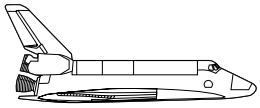
Military Aerospace Support

Military Aerospace Support

Military Aerospace Support is developing and delivering innovative products and services to reduce life-cycle costs and increase the effectiveness of aircraft and missile systems fielded around the globe. The business has a comprehensive support portfolio that includes upgrade, modification and maintenance programs; a full range of training systems and services; support systems; domestic and international logistics support services; and sustainment data and supply chain management support competencies.

Boeing Space and Communications

Jim Albaugh, President / Seal Beach, California



Space Shuttle

Space Shuttle

The Space Shuttle is the world's only operational, reusable and human-rated launch vehicle. Boeing builds, maintains, modifies and, as a United Space Alliance partner, operates the Shuttle system. Boeing also builds, tests and performs flight processing for the Shuttle's main engines – the world's only reusable liquid-fueled large rocket engines. Boeing-developed upgrades could enable the Shuttle to fly to 2030 and beyond.

Delta II

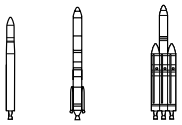
Delta II

Delta II has become the industry standard for reliability, on-time delivery of payloads to orbit, and customer satisfaction since its introduction in 1989. Delta II enjoys a 97-percent success rate for more than 90 launches.

Delta III

Delta III

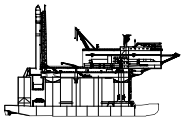
With the successful launch of Delta III on August 23, 2000, the performance of operational Delta vehicles has nearly doubled, with demonstrated ability to place up to 3,810-kg class commercial satellites into geo-synchronous transfer orbit.



Medium, Medium-Plus, Heavy – Delta IV

Delta IV

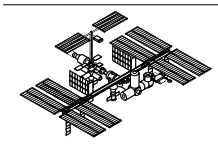
The Boeing Delta family of rockets continues to evolve to meet launch market needs and will offer a family of launch vehicles, beginning in 2002, for nearly every payload class from 900 kg to more than 13,000 kg to geosynchronous transfer orbit. The Delta IV will bring assured and affordable access to space while lowering the per-kilogram cost of launch to orbit by up to 50 percent.



Sea Launch

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.



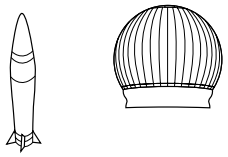
International Space Station

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 began hosting humans and by 2005 will permanently house up to seven crew members. Station assembly will require more than 40 U.S. and Russian launches.

NMD Prime Contractor

Boeing is prime contractor for the National Missile Defense (NMD) program, which is designed to defend the United States from a limited ICBM attack. The multiyear, multibillion-dollar effort calls for the company to develop, test and integrate all NMD elements. The program has enjoyed several successful integrated flight demonstrations. Current plans include developing and demonstrating the system to a point at which a decision to deploy can be made within the next several years.



NMD Prime Contractor

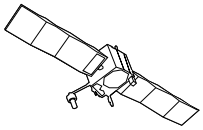
Future Imagery Architecture

In 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.

Future Imagery Architecture

Global Positioning System

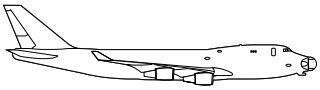
Boeing has built a total of 40 GPS satellites. Currently, Boeing is under contract to build six follow-on Block IIF satellites with a possibility of 27 additional vehicles. Additionally, Boeing is under U.S. Air Force contract to lead the ground control segment of the GPS constellation and is competing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



Global Positioning System

Airborne Laser

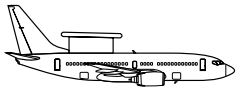
Boeing is prime contractor on the Airborne Laser program and leads a team with a $1.3-billion contract to conduct the program definition and risk reduction phase of the ABL program. This U.S. Air Force effort is intended to explore the feasibility of an airborne laser system for defense against tactical theater ballistic missiles during their boost phase. Boeing is also leading a national team on the Space-Based Laser program.



Airborne Laser

737-700 Airborne Early Warning & Control System

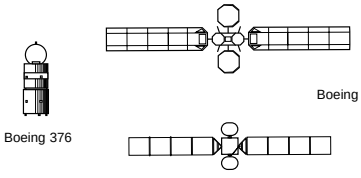
In 2000, a Boeing-led team was selected to develop an AEW&C system for Turkey and Australia. The program, which in Australia is known as Project Wedgetail, will utilize 737-700 aircraft to provide airborne electronic and communications systems for the Turkish and Australian defense forces. Boeing has gained significant experience on such systems through 30 years of successfully designing, developing and managing 707 AWACS and 767 AWACS systems and upgrades.



737-700 Airborne Early Warning & Control System

Boeing 376, Boeing 601, Boeing 702

With the October 2000 acquisition of Hughes Electronics' space and communications businesses, Boeing Satellite Systems is the world's largest manufacturer of commercial communications satellites. Core products include: the versatile Boeing 376 spacecraft; the Boeing 601 satellite, the world's best-selling large spacecraft; and the Boeing 702, the world's highest power satellite. Boeing Satellite Systems has launched over 190 satellites since 1963, including 12 in 2000.



Boeing 702

Boeing 376

Boeing 601

Boeing Capital Corporation

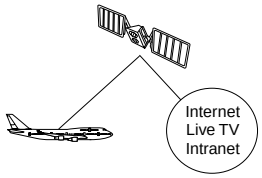
Jim Palmer, President / Renton, Washington

An asset-based leasing and lending organization, Boeing Capital Corporation manages a portfolio of more than $6 billion in assets, an amount that could grow significantly in the next five years. For more than 30 years, it has been a worldwide provider of lease and loan financing for all types of commercial and business aircraft and a wide range of commercial equipment.

Connexion by Boeing

Scott Carson, President / Kent, Washington

Connexion by Boeing℠ will effectively change the way people travel by providing high-speed, two-way Internet and live television services to aircraft in flight. Through the service, two-way, broadband (or high-data-rate) connectivity is delivered directly to airline seats, providing passengers with personalized and secure access to the Internet, company intranets and live television and audio content. Connexion by Boeing will also provide airline personnel with information that will enhance operational efficiency on the ground and in the air.

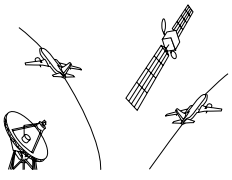


Connexion by Boeing

Air Traffic Management

John Hayhurst, President / Kent, Washington

Many of the world's air traffic systems are straining today to maintain efficient, reliable and convenient service, much less support the anticipated growth. Boeing is developing an air traffic management system that will dramatically increase capacity, improve safety and remain affordable for those who use the system. It will require a fundamental change to how the system operates. The Boeing approach involves defining system requirements, applying an operational concept that supports those requirements and selecting the right technology set.



Air Traffic Management

Corporate Directory and Shareholder Information

Board of Directors

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

John E. Bryson
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

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

Paul E. Gray
President Emeritus and Professor of Electrical Engineering
Massachusetts Institute of Technology
Committees: Audit and Finance

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

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

Lewis E. Platt
Retired Chairman of the Board and Chief Executive Officer
Hewlett-Packard Company
Committees: Audit and Finance

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

John M. Shalikashvili
Retired Chairman of the Joint Chiefs of Staff, U.S. Department of Defense
Committees: Audit and Finance

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

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, Space and Communications

Douglas G. Bain
Senior Vice President and General Counsel

James A. Bell
Vice President, Finance and Controller

Scott E. Carson
Senior Vice President – President, Connexion by Boeing

James B. Dagnon
Senior Vice President, People

Gerald E. Daniels
Senior Vice President – President, Military Aircraft and Missile Systems

Christopher W. Hansen
Senior Vice President, Government Relations

John B. Hayhurst
Senior Vice President – President, Air Traffic Management

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

Laurette T. Koellner
Senior Vice President – President, Shared Services

Judith A. Muhlberg
Vice President, Communications

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

James F. Palmer
Senior Vice President – President, Boeing Capital Corporation

Thomas R. Pickering
Senior Vice President, International Relations

Michael M. Sears
Senior Vice President and Chief Financial Officer

Walter E. Skowronski
Vice President, Finance and Treasurer

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

John D. Warner
Senior Vice President and Chief Administrative Officer

*Committee Chair

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
P.O. Box 43010
Providence, RI 02940-3008
888 777-0923 (toll-free for domestic U.S. callers)
781 575-3400 (non-U.S. callers may call collect)

Boeing registered shareholders can also obtain answers to frequently asked questions, 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, or go to EquiServe's website and click on Account Access.

Annual Meeting
The annual meeting of Boeing shareholders is scheduled to be held on Monday, April 30, 2001. Details are provided in the proxy statement.

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:

Shareholder Services
The Boeing Company
Mail Code 13-08
P.O. Box 3707
Seattle, WA 98124-2207

Investor Relations
The Boeing Company
Mail Code 10-16
P.O. Box 3707
Seattle, WA 98124-2207

Company Shareholder Services
Pre-recorded shareholder information is 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.

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
P.O. Box 43010
Providence, RI 02940-3008
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.

The Boeing Company is the leading aerospace company in the world, as measured by total revenues. The holder of more than 6,300 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, satellites, advanced information and communication systems, and financial services. It is the world's premier large-scale system integrator, with plans to develop a space-based air traffic management system to solve the world air congestion problem, as well as a global-mobile communications system that will allow passengers on any moving platform to be connected to high-bandwidth data. At year-end 2000, Boeing employed a diverse and skilled workforce of 198,000 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.

The Boeing Company
General Offices
7755 East Marginal Way South
Seattle, Washington 98108
USA

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