



Raytheon Company Fourth Quarter Earnings

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Raytheon

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Forward-Looking Statements

This presentation contains forward-looking statements, including information regarding the Company's 2006 financial outlook and guidance, future plans, objectives, business prospects and anticipated financial performance. These forward-looking statements are not statements of historical facts and represent only the Company's current expectations regarding such matters. These statements inherently involve a wide range of known and unknown risks and uncertainties. The Company's actual actions and results could differ materially from what is expressed or implied by these statements. Specific factors that could cause such a difference include, but are not limited to: risks associated with the Company's U.S. government sales, including changes or shifts in defense spending, uncertain funding of programs, potential termination of contracts, and difficulties in contract performance; the ability to procure new contracts; the risks of conducting business in foreign countries; the ability to comply with extensive governmental regulation, including import and export policies and procurement, aircraft manufacturing and other regulations; the impact of competition; the ability to develop products and technologies; the risk of cost overruns, particularly for the Company's fixed-price contracts; dependence on component availability, subcontractor performance and key suppliers; risks of a negative government audit; the use of accounting estimates in the Company's financial statements; the potential impairment of the Company's goodwill; risks associated with the general aviation, commuter and fractional ownership aircraft markets; accidents involving the Company's aircraft; the outcome of contingencies and litigation matters, including government investigations; the ability to recruit and retain qualified personnel; risks associated with acquisitions, joint ventures and other business arrangements; the impact of changes in the Company's credit ratings; and other factors as may be detailed from time to time in the Company's public announcements and Securities and Exchange Commission filings. The Company undertakes no obligation to make any revisions to the forward-looking statements contained in this presentation or to update them to reflect events or circumstances occurring after the date of this presentation. This presentation also contains non-GAAP financial measures. A GAAP reconciliation and a discussion of the Company's use of these measures are included in this presentation.

Q4 and Full-Year 2005 Highlights

- Net sales of \$6.2 billion, up 9 percent; \$21.9 billion, up 8 percent for full-year
- Free cash flow from continuing operations of \$1.0 billion; \$2.1 billion for full-year
- Net debt of \$3.3 billion; reduction of \$1.3 billion for year – lowest level in 10 years
- EPS from continuing operations of \$0.63 in quarter, up \$0.09; \$2.08 for year, up \$1.09.
- Strong bookings of \$7.3 billion in quarter; backlog of \$34.4 billion up \$1.9 billion from \$32.5 billion in 2004
- Repurchase of 11 million shares of common stock for \$436 million in 2005

2006 Financial Outlook Update

	<u>Prior**</u>	<u>Current</u>
Bookings	\$22.0B - \$23.0B	\$22.0B - \$23.0B
Sales	\$23.1B - \$23.6B	\$23.1B - \$23.6B
FAS/CAS Pension Adjustment Expense	\$362M	\$360M*
Interest expense, net	\$250M - \$260M	\$245M - \$255M*
Diluted Shares	451M	449M*
GAAP EPS from Cont. Ops	\$2.40 - \$2.50	\$2.45 - \$2.55*
Net Debt	\$3.1B - \$3.3B	\$2.6B - \$2.8B*
Operating Cash Flow	\$1.7B - \$1.9B	\$1.7B - \$1.9B
ROIC	7.7 - 8.1%	7.8 - 8.2%*

* Denotes change from prior guidance

** As of December 1, 2005

2006 Financial Outlook: By Business

	<u>Current Sales (\$B)</u>	<u>Current Op. Margin</u>
IDS	4.0-4.2	13.9-14.4%
IIS	2.6-2.8	9.1-9.5%
MS	4.2-4.4	10.2-10.6%
NCS	3.2-3.4	10.2-10.6%
SAS	4.2-4.4	13.3-13.7%
RTSC	2.0-2.1	7.0-7.5%
RAC	3.0-3.2	160M-170M
Other	0.7-0.8	(40M)-(50M)
Corp and Elims	<u>(1.6)</u>	<u>(195M)-(210M)</u>
Subtotal	\$23.1-\$23.6	9.7-9.9%
FAS/CAS Inc Adj		-1.5%
Total Cont. Ops	\$23.1-\$23.6	8.2-8.4%
G&D After elims	\$19.2-\$19.7	11.5-11.7%

Cash Flow Outlook

\$ Millions

	<u>2006F</u>
Income from continuing operations	\$1.0B - \$1.1B
Depreciation & amortization	450 - 470
Working Capital	-
Discretionary pension funding	(200)
Non cash tax expense	120 - 140
FAS/CAS income adjustment	360
Other	<u>(15) - 15</u>
Operating cash flow	\$1.7B - \$1.9B
Capital & internal software spending	<u>(530) - (480)</u>
Free cash flow	\$1.2B - \$1.4B

2006 Pension Expense

\$ Millions except per share data

	Prior**	Current
FAS	(\$844)	(\$810)
CAS	(482)	(450)
Income Adjustment	(362)	(360)
EPS Impact of FAS/CAS Pension	(\$0.54)	(\$0.54)
CAS Recovery	482	450
Funding Required	(437)	(438)
Discretionary Funding	(200)	(200) *

* Actual cash payment made in Jan, 2006

** As of December 1, 2005

Note: 2006 pension assumes a discount rate of 5.75% and a return on assets of 8.75% as of Dec. 31, 2005 and does not consider any effects from pension reform.

2006 Financial Outlook: By Quarter

\$ Millions except EPS

	2006 Estimates				Total
	Q1	Q2	Q3	Q4	
Sales	22%	24%	25%	29%	\$23.1B - \$23.6B
EPS	18 - 20%	21 - 26%	24 - 29%	31 - 33%	\$2.45 - \$2.55
Operating Cash Flow	(\$425) - (\$375)	\$350 - \$400	\$650 - \$700	\$1.1B - \$1.2B	\$1.7B - \$1.9B

2006 Financial Outlook: Government and Defense

	<u>Current</u>
Bookings	\$18.0-19.0B
Net Sales ***	\$19.2-19.7B
Op. Margin ***	11.5-11.7%
Operating Cash Flow	\$1.5-1.7B

*** After elimination of intercompany sales

Non-GAAP Financial Measures

Free cash flow is a "non-GAAP" financial measure under SEC regulations. The Company defines free cash flow as operating cash flow less capital spending and internal use software spending. Our definition may differ from similarly titled measures used by others. The Company uses free cash flow to facilitate management's internal comparisons to the Company's historical operating results and to competitors' operating results and as an element of management incentive compensation. The Company believes disclosure of free cash flow performance provides investors greater transparency with respect to information used by management in its financial and operational decision making. While this information may be useful in evaluating the Company, it should be considered supplemental to and not as a substitute for financial information prepared in accordance with generally accepted accounting principles.

Free cash flow

2005 Actuals

	Three Months Ended	Full Year
	<u>31-Dec-05</u>	<u>31-Dec-05</u>
Operating cash flow	\$ 1,227	\$ 2,515
Less: Capital spending	(155)	(338)
Internal use software spending	<u>(14)</u>	<u>(75)</u>
Free cash flow	1,058	2,102
Plus: Discontinued operations	<u>(25)</u>	<u>31</u>
Free cash flow from cont. ops.	<u><u>\$ 1,033</u></u>	<u><u>\$ 2,133</u></u>

Return on Invested Capital Calculation

	Outlook <u>2006</u>
Net Income (Cont. Ops)	} Combined
Net Interest Expense (After Tax*)	
Lease Expense (After Tax*)	
Return	\$1,340-\$1,385
Net Debt**	} Combined
Equity**	
Lease expense x 8, plus Financial Guarantees* *	
Invested Capital	\$17,100-\$16,900
ROIC	7.8% - 8.2%
*Effective Tax Rate	33.6%

** 2 point average

We define Return on Invested Capital (ROIC) as net income plus after-tax net interest expense plus one-third of lease expense (estimate of interest portion of lease expense), divided by average invested capital after capitalizing operating leases (lease expense times a multiplier of 8) and adding financial guarantees. ROIC is not a measure of financial performance under generally accepted accounting principles (GAAP), and may not be defined and calculated by other companies in the same manner. ROIC should not be considered the sole indicator of company performance. Management uses ROIC to ensure efficient and effective use of capital