



# Third Quarter Earnings

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**Raytheon**

*Customer Success Is Our Mission*

# Forward-Looking Statements

**This presentation contains forward-looking statements, including information regarding the Company's 2006 and 2007 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; risks associated with exploring strategic alternatives for RAC, including the uncertainty of whether a transaction will be consummated and the potential disruption to RAC's business during such transaction; and other factors as may be detailed from time to time in the Company's public announcements and Securities and Exchange Commission filings. In addition, these statements do not give effect to the potential impact of any acquisitions, divestitures or business combinations, including any potential RAC transaction, that may be announced or closed after the date hereof. 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.**

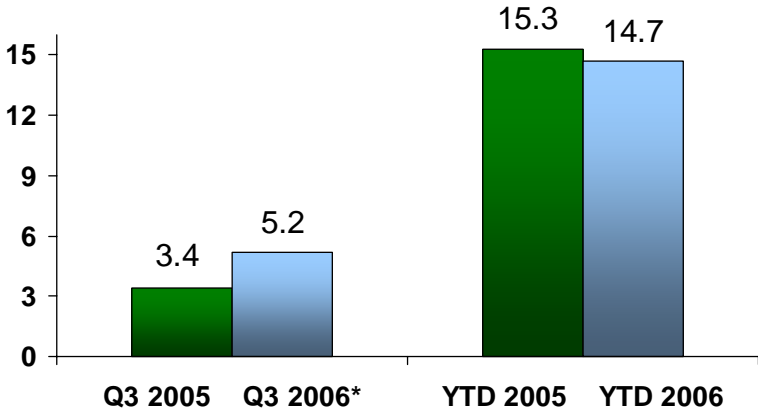
## Q3 2006 Company Highlights

- Earnings per share (EPS) from continuing operations of \$0.72, up 41 percent
- Strong operating cash flow; net debt at \$2.8 billion, lowest in over 11 years
- Strong bookings of \$6.1 billion; sales of \$5.7 billion, up 7 percent
- 2006 full-year guidance increased for EPS, bookings, operating cash flow, and return on invested capital (ROIC)
- 5.5 million shares of common stock repurchased for \$250 million in the quarter; 7.9 million shares of common stock repurchased for \$352 million year-to-date

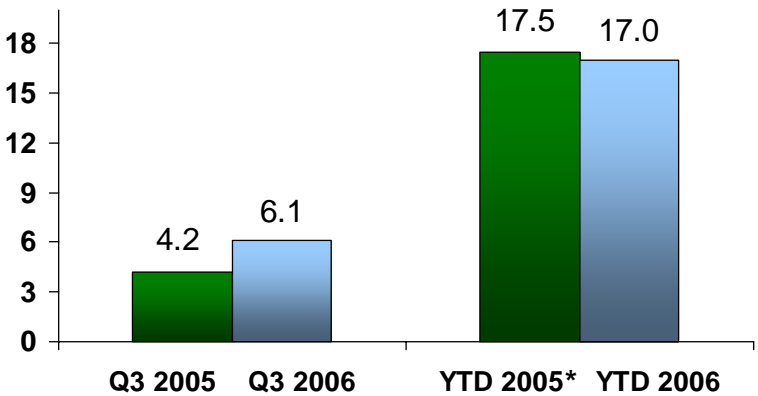
# Bookings and Backlog (\$B)

## Bookings

### Government & Defense



### Total Company

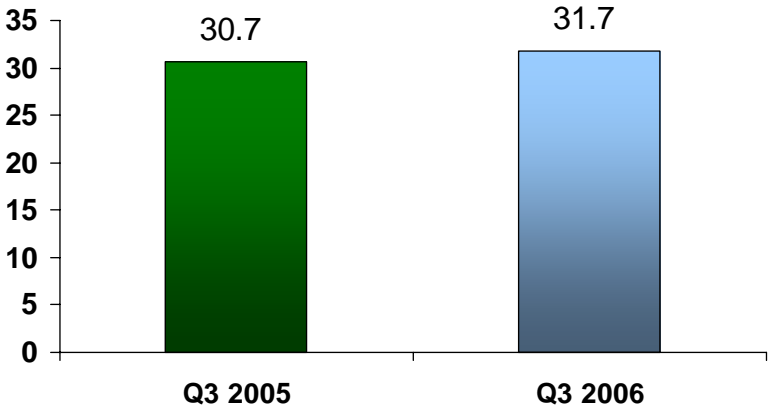


\*2006 includes higher bookings at both MS & NCS

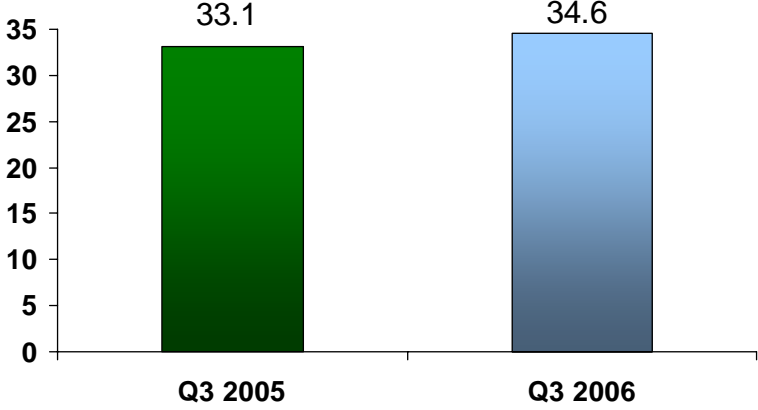
\*Prior year includes Q2, 2005 multi-year awards of DDG 1000 (\$1.7B) & F-18 AESA (\$586M)

## Backlog

### Government & Defense



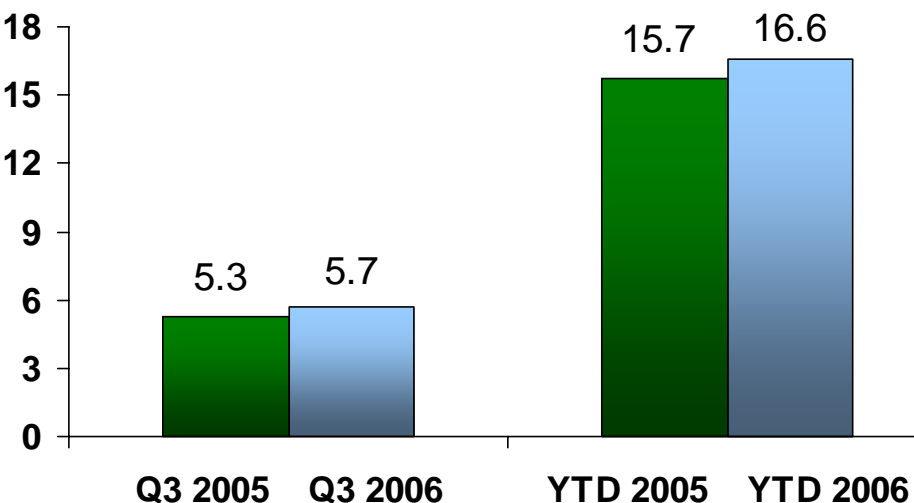
### Total Company



**Bookings and backlog remain strong**

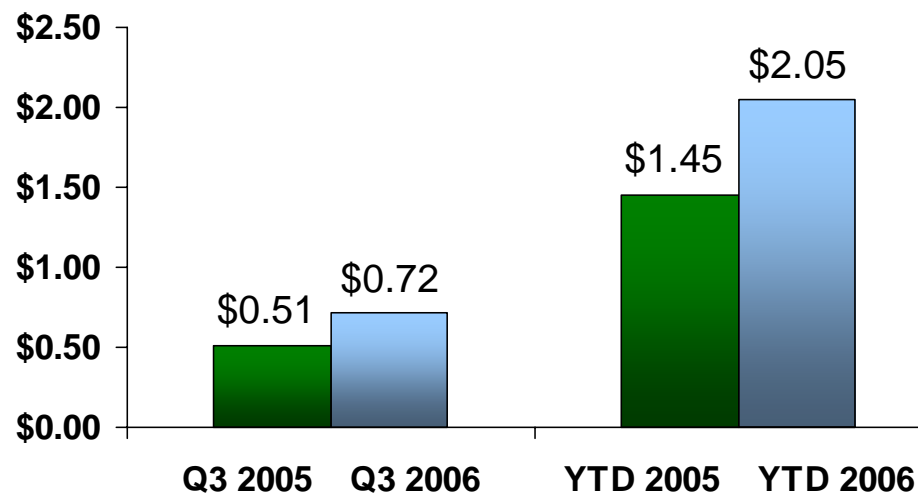
# Sales and Earnings Per Share

## Total Company Sales (\$B)



- Sales up 7 percent in Q3 2006, up 6 percent year-to-date

## EPS from Continuing Operations

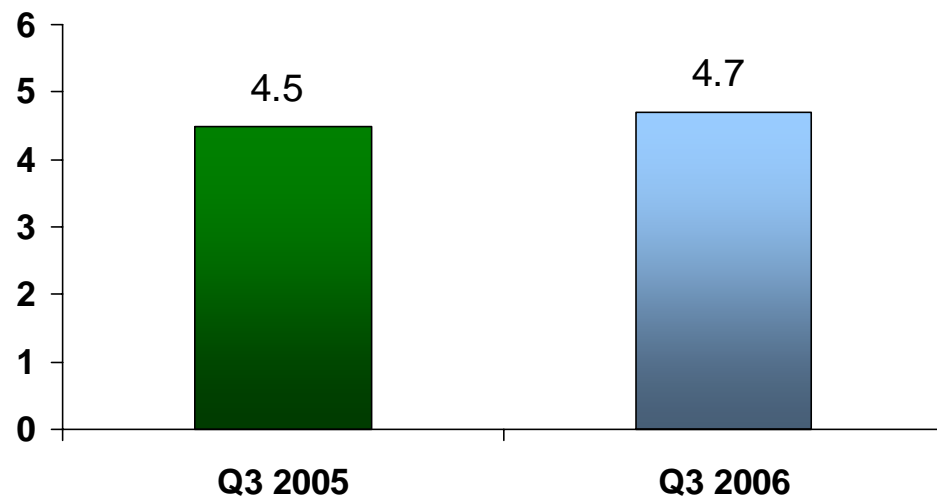


- EPS up 41 percent in both Q3 2006 & year-to-date

**Continued strong sales and earnings**

# Government & Defense Sales

Sales (\$B)



Sales (\$M)

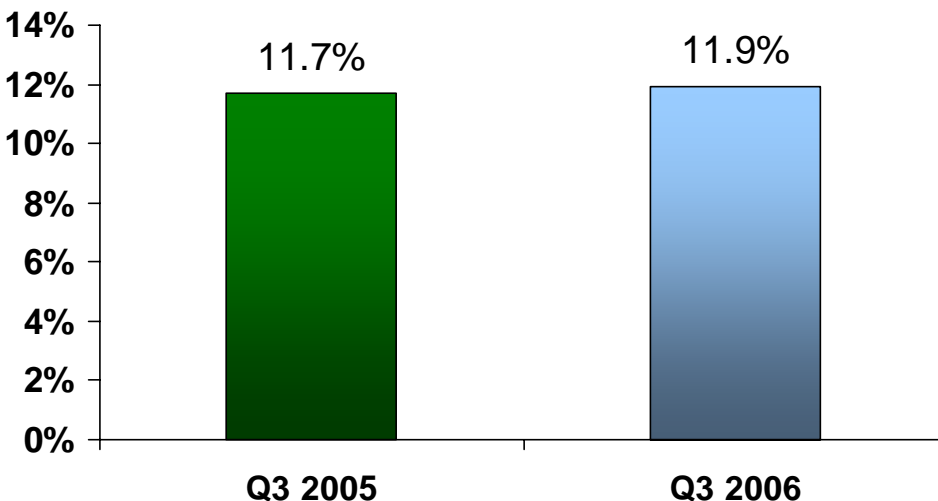
	Q3 2005	Q3 2006	Net Change
<b>IDS</b>	919	1,030	111
<b>IIS</b>	649	626	(23)
<b>MS</b>	1,005	1,081	76
<b>NCS</b>	833	879	46
<b>SAS</b>	1,013	1,069	56
<b>RTSC</b>	479	509	30
<b>Elims</b>	(394)	(456)	(62)
<b>G&amp;D</b>	<b>4,504</b>	<b>4,738</b>	<b>234</b>

- **G&D Sales up 5 percent in Q3 2006 primarily driven by DDG 1000 sales at IDS and ramp up of Standard Missile at MS**

**Continued growth in key markets**

# Government & Defense Margins

**Operating Margins**



**Operating Margins**

	<u>Q3 2005</u>	<u>Q3 2006</u>	<u>Net Change</u>
<b>IDS</b>	14.6%	16.2%	160 bps
<b>IIS</b>	8.8%	9.3%	50 bps
<b>MS</b>	10.3%	10.1%	(20) bps
<b>NCS</b>	10.4%	9.9%	(50) bps
<b>SAS</b>	14.1%	13.8%	(30) bps
<b>RTSC</b>	7.9%	7.1%	(80) bps
<b>G&amp;D*</b>	<b>11.7%</b>	<b>11.9%</b>	<b>20 bps</b>

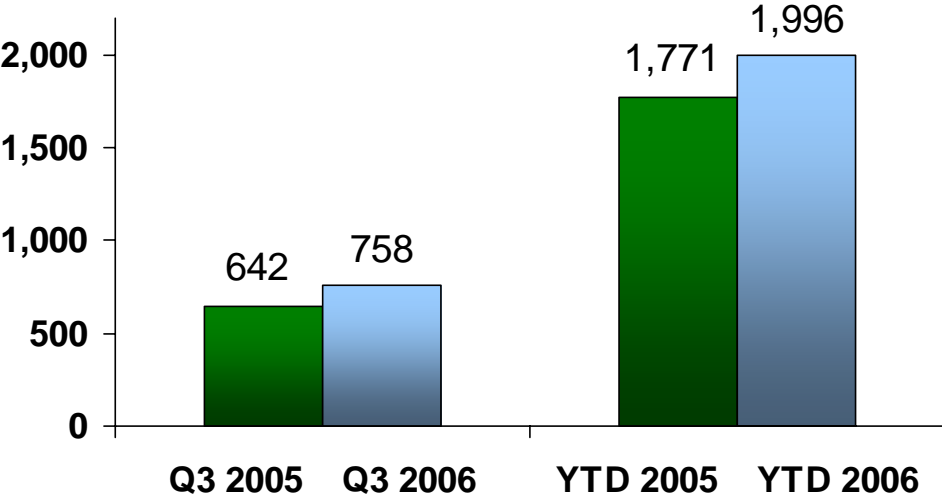
- **G&D operating margins up 20 bps in Q3 2006 primarily driven by strong performance at IDS**

\* After eliminations of intercompany operating profit

**Continued focus on execution, full year remains on track**

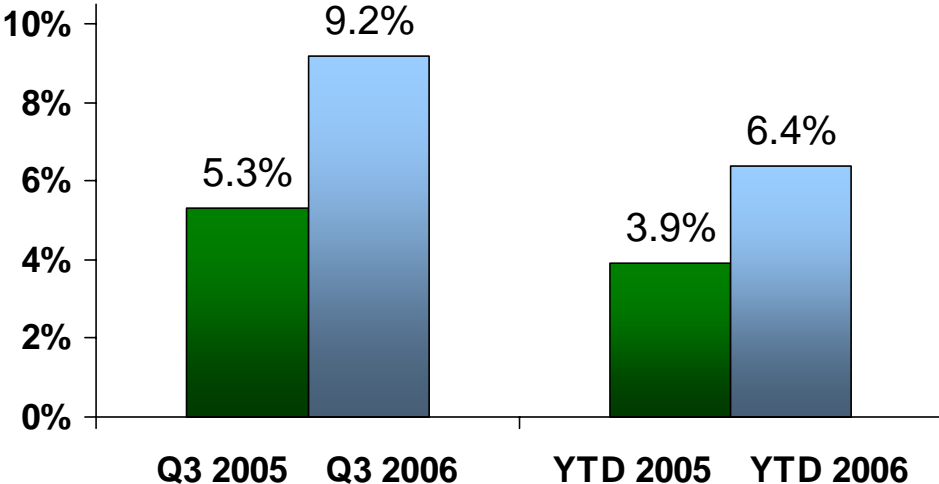
# Raytheon Aircraft Company

Sales (\$M)



- Sales up 18 percent in Q3 2006, up 13 percent year-to-date

Operating Margins



- Operating margins up 390 bps in Q3 2006, up 250 bps year-to-date

**Strong volume, favorable mix and continued cost and productivity improvements**

# Cash Flow

*\$ Millions*

	3rd Quarter		Nine Months	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
<b>Net Income</b>	228	321	595	918
<b>Depreciation &amp; Amortization</b>	109	113	327	341
<b>Working Capital</b>	245	37	(106)	(621)
<b>Other</b>	216	279	528	556
<b>Operating Cash Flow from Cont. Ops.</b>	798	750	1,344	1,194
<b>Capital Spending &amp; Internal Software</b>	(96)	(93)	(244)	(224)
<b>Free Cash Flow from Cont. Ops.</b>	702	657	1,100	970

Free Cash Flow (FCF) 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. FCF should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP.

**Continued strong cash flow**

# 2006 Financial Outlook Update

	<u>Current</u>	<u>Prior**</u>
<b>Bookings (\$B)</b>	<b>23.0 - 24.0*</b>	<b>22.0 - 23.0</b>
<b>Sales (\$B)</b>	<b>23.1 - 23.6</b>	<b>23.1 - 23.6</b>
<b>FAS/CAS Pension Expense (\$M)</b>	<b>378</b>	<b>378</b>
<b>Interest expense, net (\$M)</b>	<b>200 – 210*</b>	<b>220 - 230</b>
<b>Diluted Shares (M)</b>	<b>449 - 451</b>	<b>449 - 451</b>
<b>GAAP EPS from Cont. Ops</b>	<b>\$2.70 - \$2.80*</b>	<b>\$2.60 - \$2.70</b>
<b>Net Debt (\$B)</b>	<b>2.0 - 2.2*</b>	<b>2.3 - 2.5</b>
<b>Operating Cash Flow (\$B)</b>	<b>2.3 - 2.5*</b>	<b>2.0 - 2.2</b>
<b>ROIC (%)</b>	<b>8.4 - 8.8*</b>	<b>8.2 – 8.6</b>

\* Denotes change from prior guidance

\*\* As of July 27, 2006

Net debt is defined as total debt less cash and cash equivalents

**Increased full-year guidance for EPS, bookings, cash flow, and ROIC**

# EPS from Continuing Operations Outlook Update

2006 Full Year

**Prior Guidance**

**\$2.60 - \$2.70**

Improved performance IDS

\$0.02

Improved performance RAC

\$0.03

Net interest expense

\$0.03

Other items

\$0.02

**Current Guidance**

**\$2.70 - \$2.80**

**Strong operating performance driving increase to EPS guidance**

# 2006 Financial Outlook: By Business

	<u>Current Sales (\$B)</u>	<u>Current Op. Margin</u>	<u>Prior Op. Margin**</u>
<b>IDS</b>	4.0-4.2	15.9-16.4%*	15.7-16.2%
<b>IIS</b>	2.6-2.8	9.1-9.5%	9.1-9.5%
<b>MS</b>	4.2-4.4	10.2-10.6%	10.2-10.6%
<b>NCS</b>	3.2-3.4	10.2-10.6%	10.2-10.6%
<b>SAS</b>	4.2-4.4	13.3-13.7%	13.3-13.7%
<b>RTSC</b>	2.0-2.1	7.0-7.5%	7.0-7.5%
<b>RAC</b>	3.0-3.2	195M-205M*	175M-185M
<b>Other</b>	0.7-0.8	(40M)-(50M)	(40M)-(50M)
<b>Corp and Elims</b>	<u>(1.6)</u>	<u>(195M)-(205M)*</u>	<u>(205M)-(220M)</u>
<b>Subtotal</b>	\$23.1-\$23.6	10.3-10.5%*	10.1-10.3%
<b>FAS/CAS Inc Adj</b>		<u>-1.6%</u>	<u>-1.6%</u>
<b>Total Cont. Ops</b>	<b>\$23.1-\$23.6</b>	<b>8.7-8.9%*</b>	<b>8.5-8.7%</b>
<b>G&amp;D After elims</b>	<b>\$19.2-\$19.7</b>	<b>12.0-12.2%*</b>	<b>11.9-12.1%</b>

\* Denotes change from prior guidance

\*\* As of July 27, 2006

**Operational improvements driving margin expansion**

# 2006 Financial Outlook: Cash Flow

*\$ Millions*

	Current	Prior**
<b>Income from continuing operations</b>	<b>\$1.2B - \$1.3B*</b>	<b>\$1.1B - \$1.2B</b>
<b>Depreciation &amp; amortization</b>	<b>450 - 470</b>	<b>450 - 470</b>
<b>Working Capital</b>	<b>150 - 200*</b>	<b>50 - 100</b>
<b>Discretionary pension funding</b>	<b>(200)</b>	<b>(200)</b>
<b>Non cash tax expense</b>	<b>220 - 240</b>	<b>220 - 240</b>
<b>FAS/CAS income adjustment</b>	<b>378</b>	<b>378</b>
<b>Other</b>	<b>35 - 65*</b>	<b>(15) - 15</b>
<b>Operating cash flow</b>	<b>\$2.3B - \$2.5B*</b>	<b>\$2.0B - \$2.2B</b>
<b>Capital &amp; internal software spending</b>	<b>(500) - (450)*</b>	<b>(530) - (480)</b>
<b>Free cash flow</b>	<b>\$1.8B - \$2.0B*</b>	<b>\$1.5B - \$1.7B</b>

\* Denotes change from prior guidance

\*\* As of July 27, 2006

Free Cash Flow (FCF) 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. FCF should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP.

# 2007 Financial Outlook

	<u>2006</u>	<u>2007</u>
<b>Bookings (\$B)</b>	<b>23.0 - 24.0</b>	<b>24.5 - 25.5</b>
<b>Net Sales (\$B)</b>		
<b>Government and Defense</b>	<b>20.8 - 21.3</b>	<b>22.2 - 22.7</b>
<b>Elimination of Intercompany Sales</b>	<b>(1.6)</b>	<b>(1.7)</b>
<b>Government and Defense after Elims</b>	<b>19.2 - 19.7</b>	<b>20.5 - 21.0</b>
<b>Raytheon Aircraft</b>	<b>3.0 - 3.2</b>	<b>3.3</b>
<b>Other</b>	<b>0.7 - 0.8</b>	<b>0.8</b>
<b>Total Company</b>	<b>23.1 - 23.6</b>	<b>24.6 - 25.1</b>
<b>GAAP EPS (\$)</b>	<b>2.70 - 2.80</b>	<b>2.95 - 3.05</b>
<b>Operating Cash Flow (\$B)</b>	<b>2.3 - 2.5</b>	<b>1.7 - 1.9</b>
<b>ROIC (%)</b>	<b>8.4 - 8.8</b>	<b>9.0 - 9.4</b>

**Solid performance across the company**

# Summary

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- Intense focus on execution....and margin expansion
- Strong profitable growth going forward...solid position in our core markets...and expanding
- Well positioned portfolio – platform agnostic – capability focused
- Excellent cash generation
- ROIC focus and improvement

**Well positioned for today....and tomorrow**

# Appendix

# 2006 Financial Outlook: Government and Defense

	<u>Current</u>	<u>Prior**</u>
<b>Bookings (\$B)</b>	<b>18.7 - 19.7*</b>	<b>18.0 - 19.0</b>
<b>Net Sales (\$B)***</b>	<b>19.2 - 19.7</b>	<b>19.2 - 19.7</b>
<b>Op. Margin (%)***</b>	<b>12.0 - 12.2*</b>	<b>11.9 - 12.1</b>
<b>Operating Cash Flow (\$B)</b>	<b>1.9 - 2.1*</b>	<b>1.7 - 1.9</b>

\* Denotes change from prior guidance

\*\* As of July 27, 2006

\*\*\* After elimination of intercompany sales

# Pension Expense

*\$ Millions*

	<b>2006</b>	<b>2007</b>
	<b>Forecast</b>	<b>Forecast</b>
<b>FAS</b>	<b>(878)</b>	<b>(794)</b>
<b>CAS</b>	<b>(500)</b>	<b>(449)</b>
<b>Income Adjustment</b>	<b>(378)</b>	<b>(345)</b>
<b>EPS Impact of FAS/CAS Pension</b>	<b>(0.55)</b>	<b>(0.51)</b>
<b>CAS Recovery</b>	<b>500</b>	<b>449</b>
<b>Funding Required</b>	<b>(443)</b>	<b>(470)</b>
<b>Discretionary Funding</b>	<b>(200) *</b>	<b>(200)</b>

\* Actual cash payment made in Q1 2006

Note: 2007 pension assumes a discount rate of 5.75% and a return on assets of 8.75% as of Dec. 31, 2006

# 2007 FAS/CAS Pension Adjustment (\$M)

<u>Estimated Discount Rate*</u>	<u>Estimated Return*</u>			
	<u>0.00%</u>	<u>5.00%</u>	<u>8.75%</u>	<u>15.00%</u>
<b>5.50%</b>	390	385	395	406
<b>5.75%</b>	340	335	<b>Current assumption 345</b>	354
<b>6.00%</b>	291	286	296	305
<b>6.25%</b>	241	236	246	255

\* Pension expense for 2007 is based upon discount rates as of 12/31/2006 and asset returns for the calendar year 2006. 2007 pension expense will be updated at year end 2006, once actual discount rates and asset returns for 2006 are determined.

Note: The purpose of this chart is to indicate the range of outcomes of the 2007 FAS/CAS pension adjustment based upon the 2006 discount rate and return on assets. Actual results not necessarily limited to above scenarios. Includes International Pension.

# Raytheon Aircraft – Delivery Forecast

<u>2005 Actual</u>		<u>Current Forecast</u>	<u>Prior Forecast*</u>	<u>Change</u>
0	Hawker 4000	0	5	(5)
58	Hawker 800XP/850XP	64	63	1
53	Hawker 400XP	54	51	3
30	Premier I	36	37	(1)
114	King Air	143	142	1
99	Pistons	122	126	(4)
<b>354</b>	<b>Total Deliveries</b>	<b>419</b>	<b>424</b>	<b>(5)</b>

\* As of July 27, 2006

**Includes Special Mission aircraft units but excludes JPATS delivery units**

# Return on Invested Capital Calculation

	Outlook <u>2006</u>	Outlook <u>2007</u>
Income from Continuing Operations		
Net Interest Expense, after-tax*	Combined	Combined
Lease Expense, after-tax*		
<b>Return</b>	<b>\$1,415-\$1,460</b>	<b>\$1,510-\$1,555</b>
Net Debt**		
Equity**	Combined	Combined
Lease expense x 8, plus Financial Guarantees* *		
<b>Invested Capital</b>	<b>\$16,775-\$16,575</b>	<b>\$16,700-\$16,500</b>
<b>ROIC</b>	<b>8.4% - 8.8%</b>	<b>9.0% - 9.4%</b>
<b>*Effective Tax Rate</b>	<b>33.9%</b>	<b>34.0%</b>
** 2 point average		

We define Return on Invested Capital (ROIC) as income from continuing operations plus after-tax net interest expense plus one-third of operating lease expense after-tax (estimate of interest portion of operating lease expense) divided by average invested capital after capitalizing operating leases (operating 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 be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. The Company uses ROIC to make the most efficient and effective use of capital and as an element of management compensation.