



Raytheon Company First Quarter Earnings

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Raytheon

Customer Success Is Our Mission

Forward-Looking Statements

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Q1 2006 Highlights

- Strong bookings of \$5.5 billion; record backlog of \$34.7 billion
- Net sales of \$5.2 billion, up 4 percent
- EPS from continuing operations of \$0.64, up 49 percent
- Positive operating cash flow in first quarter – first time in recent history
- Repurchase of 2.4 million shares of common stock for \$102 million
- Increased annual dividend 9 percent, from \$0.88 to \$0.96 and authorized an additional share repurchase program for \$750 million
- Increased full-year guidance for EPS, operating cash flow, and Return on Invested Capital (ROIC)

2006 Financial Outlook Update

	<u>Current</u>	<u>Prior**</u>
Bookings	\$22.0B - \$23.0B	\$22.0B - \$23.0B
Sales	\$23.1B - \$23.6B	\$23.1B - \$23.6B
FAS/CAS Pension Adjustment	\$360M	\$360M
Interest expense, net	\$220M - \$230M*	\$245M - \$255M
Diluted Shares	449M- 451M*	449M
GAAP EPS from Cont. Ops	\$2.55 - \$2.65*	\$2.45 - \$2.55
Net Debt	\$2.4B - \$2.6B*	\$2.6B - \$2.8B
Operating Cash Flow	\$1.9B - \$2.1B*	\$1.7B - \$1.9B
ROIC	8.0 - 8.4%*	7.8 - 8.2%

* Denotes change from prior guidance

** As of February 2, 2006

2006 Financial Outlook: By Business

	<u>Current Sales (\$B)</u>	<u>Current Op. Margin</u>		<u>Prior Op. Margin</u>	**
IDS	4.0-4.2	14.8-15.3%	*	13.9-14.4%	
IIS	2.6-2.8	9.1-9.5%		9.1-9.5%	
MS	4.2-4.4	10.2-10.6%		10.2-10.6%	
NCS	3.2-3.4	10.2-10.6%		10.2-10.6%	
SAS	4.2-4.4	13.3-13.7%		13.3-13.7%	
RTSC	2.0-2.1	7.0-7.5%		7.0-7.5%	
RAC	3.0-3.2	165M-175M	*	160M-170M	
Other	0.7-0.8	(40M)-(50M)		(40M)-(50M)	
Corp and Elims	<u>(1.6)</u>	<u>(195M)-(210M)</u>		<u>(195M)-(210M)</u>	
Subtotal	\$23.1-\$23.6	9.9-10.1%	*	9.7-9.9%	
FAS/CAS Inc Adj	<u></u>	<u>-1.5%</u>		<u>-1.5%</u>	
Total Cont. Ops	\$23.1-\$23.6	8.4-8.6%	*	8.2-8.4%	
G&D After elims	\$19.2-\$19.7	11.7-11.9%	*	11.5-11.7%	

* Denotes change from prior guidance

** As of February 2, 2006

2006 Financial Outlook: Cash Flow

\$ Millions

	Current	Prior**
Income from continuing operations	\$1.1B - \$1.2B*	\$1.0B - \$1.1B
Depreciation & amortization	450 - 470	450 - 470
Working Capital	-	-
Discretionary pension funding	(200)	(200)
Non cash tax expense	220 - 240*	120 - 140
FAS/CAS income adjustment	360	360
Other	(15) - 15	(15) - 15
Operating cash flow	\$1.9B - \$2.1B*	\$1.7B - \$1.9B
Capital & internal software spending	(530) - (480)	(530) - (480)
Free cash flow	\$1.4B - \$1.6B*	\$1.2B - \$1.4B

* Denotes change from prior guidance

** As of February 2, 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.

2006 Financial Outlook: By Quarter

\$ Millions except EPS

	Q2	Q3	Q4	Total
Sales	24%	25%	29%	\$23.1B - \$23.6B
EPS	22 - 25%*	23 - 26%*	29 - 32%*	\$2.55-\$2.65*
Operating Cash Flow	\$300 - \$350*	\$650 - \$700	\$1.0B - \$1.1B*	\$1.9B-\$2.1B*

** Denotes change from prior guidance*

2006 Financial Outlook: Government and Defense

	<u>Current</u>	<u>Prior**</u>
Bookings	\$18.0-19.0B	\$18.0-19.0B
Net Sales ***	\$19.2-19.7B	\$19.2-19.7B
Op. Margin ***	11.7-11.9% *	11.5-11.7%
Operating Cash Flow	\$1.6-1.8B*	\$1.5-1.7B

* Denotes change from prior guidance

** As of February 2, 2006

*** After elimination of intercompany sales

Return on Invested Capital Calculation

Outlook
2006

Income from Continuing Operations

Net Interest Expense, after-tax*

Lease Expense, after-tax*

Combined

Return

\$1,365-\$1,410

Net Debt**

Equity**

Lease expense x 8, plus Financial Guarantees* *

Combined

Invested Capital

\$17,000-\$16,800

ROIC

8.0% - 8.4%

*Effective Tax Rate

33.6%

** 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.