

Raytheon Company Second Quarter Earnings

July 27, 2006

Dial In Number
866.800.8651 Domestic
617.614.2704 International

Replay Number
888.286.8010 Domestic
617.801.6888 International
Reservation Number: 24728673

Available through August 03, 2006

Forward-Looking Statements

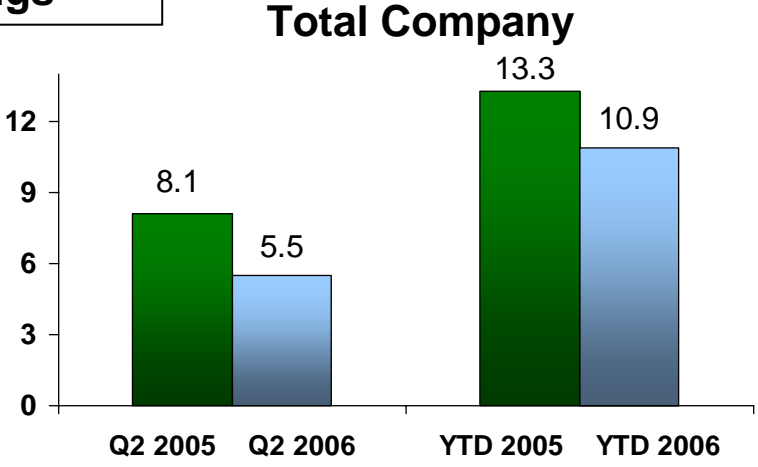
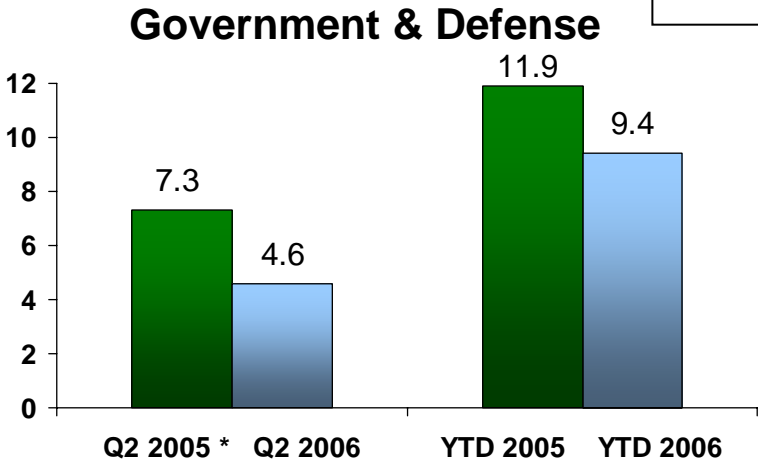
This presentation contains forward-looking statements, including information regarding the Company's 2006 financial outlook and guidance, future plans, objectives, business prospects and anticipated financial performance. These forward-looking statements are not statements of historical facts and represent 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; 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.

Q2 2006 Company Highlights

- EPS from continuing operations of \$0.69, up 35 percent
- Strong operating cash flow; net debt at \$3.1 billion, lowest in over 10 years
- Strong bookings of \$5.5 billion; sales of \$5.7 billion, up 6 percent
- Increases full-year guidance for EPS, operating cash flow, and ROIC
- Exploring strategic alternatives for Raytheon Aircraft Company

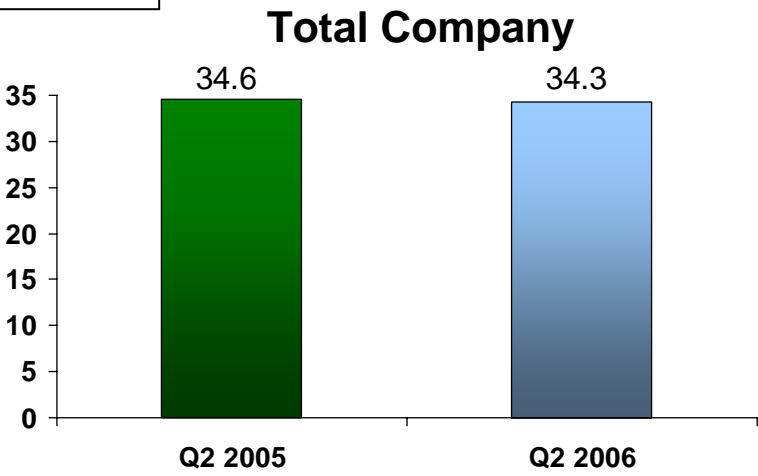
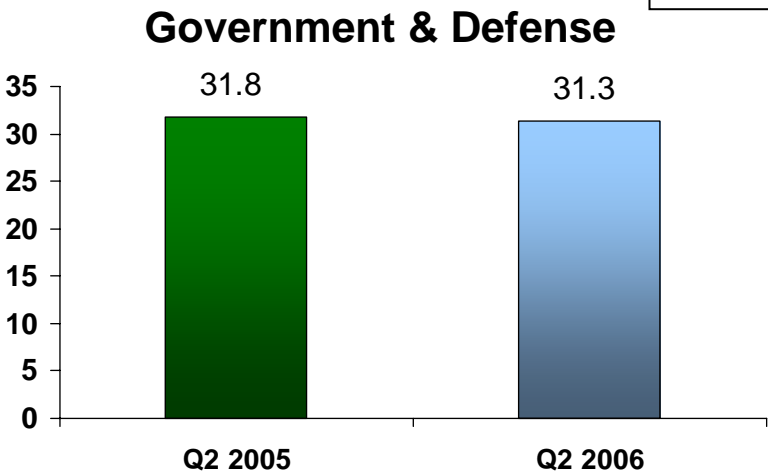
Bookings and Backlog (\$B)

Bookings



*Prior year includes multi-year awards of DDG 1000 (\$1.7B), Taiwan SRP(\$631M), & AESA (\$586M)

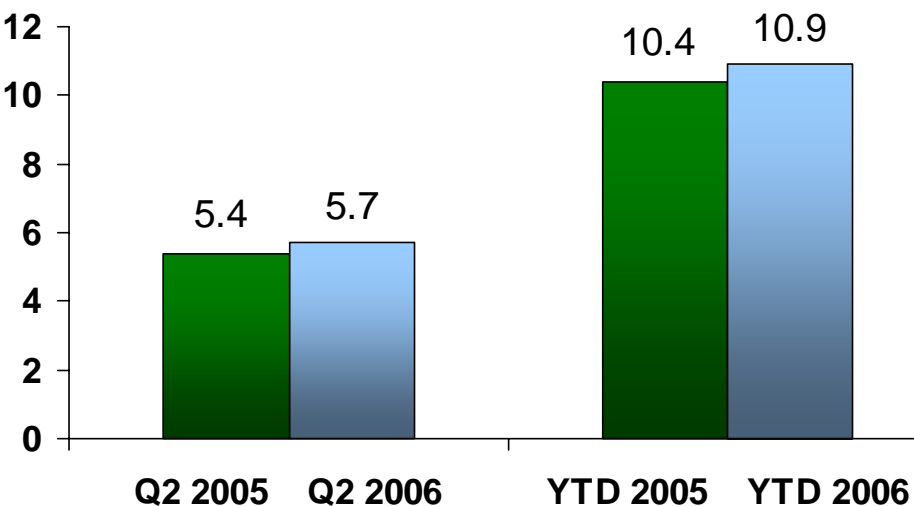
Backlog



Backlog remains strong

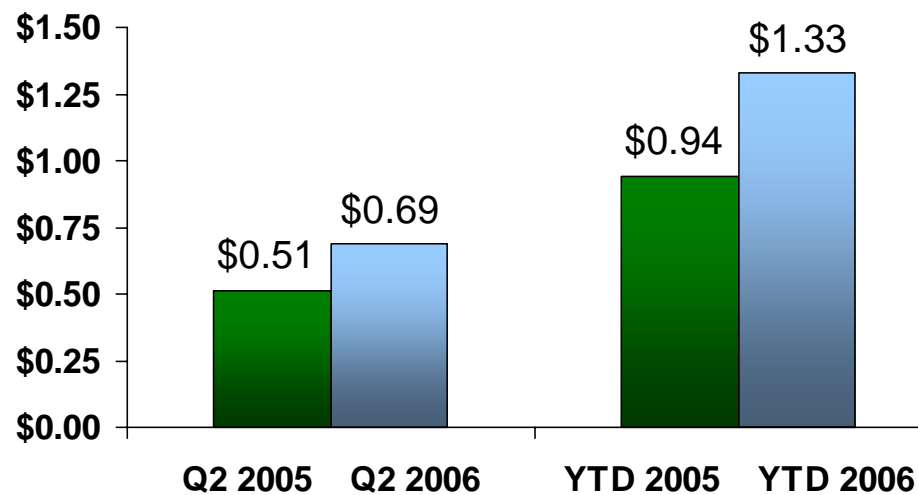
Sales and Earnings Per Share

Total Company Sales (\$B)



- Sales up 6 percent in Q2 2006, up 5 percent year-to-date

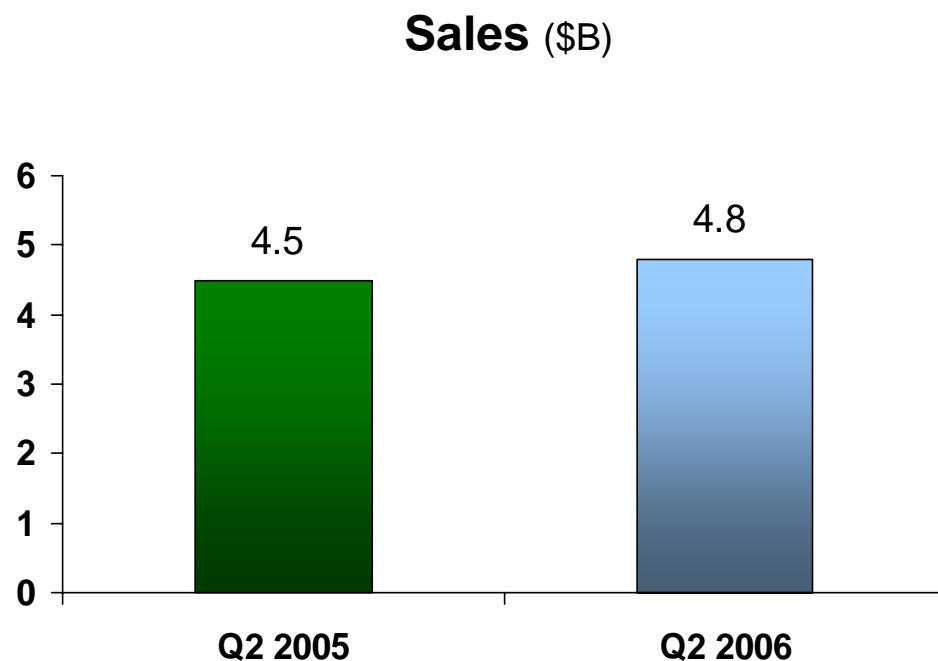
EPS from Continuing Operations



- EPS up 35 percent in Q2 2006, up 41 percent year-to-date

Continued strong sales and earnings

Government & Defense Sales



Sales (\$M)

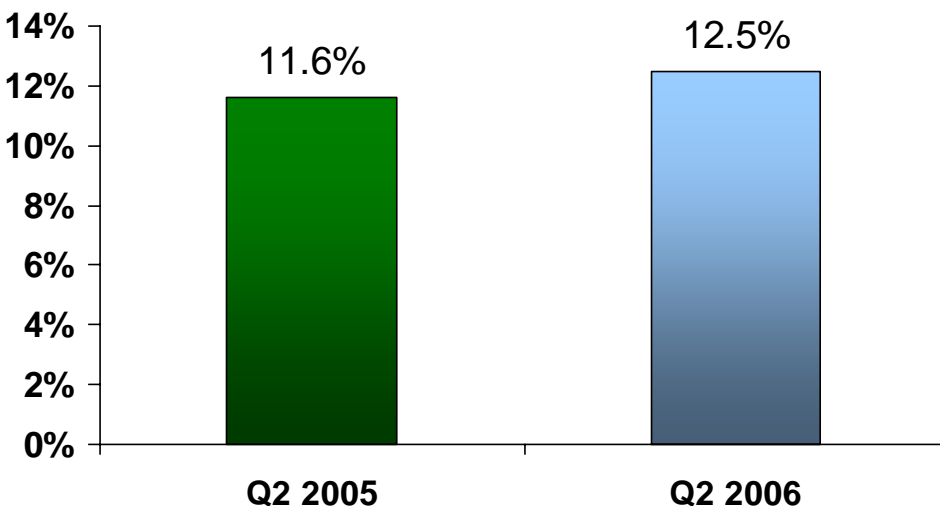
	<u>Q2 2005</u>	<u>Q2 2006</u>	<u>Net Change</u>
IDS	940	1,038	98
IIS	630	633	3
MS	1,007	1,117	110
NCS	804	880	76
SAS	1,060	1,057	(3)
RTSC	509	476	(33)
Elims	(417)	(434)	(17)
G&D	4,533	4,767	234

- **G&D Sales up 5 percent in Q2 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

	Q2 2005	Q2 2006	Net Change
IDS	14.8%	17.1%	230 bps
IIS	9.4%	9.2%	(20) bps
MS	10.3%	10.9%	60 bps
NCS	9.7%	10.3%	60 bps
SAS	13.8%	14.4%	60 bps
RTSC	7.5%	6.7%	(80) bps
G&D*	11.6%	12.5%	90 bps

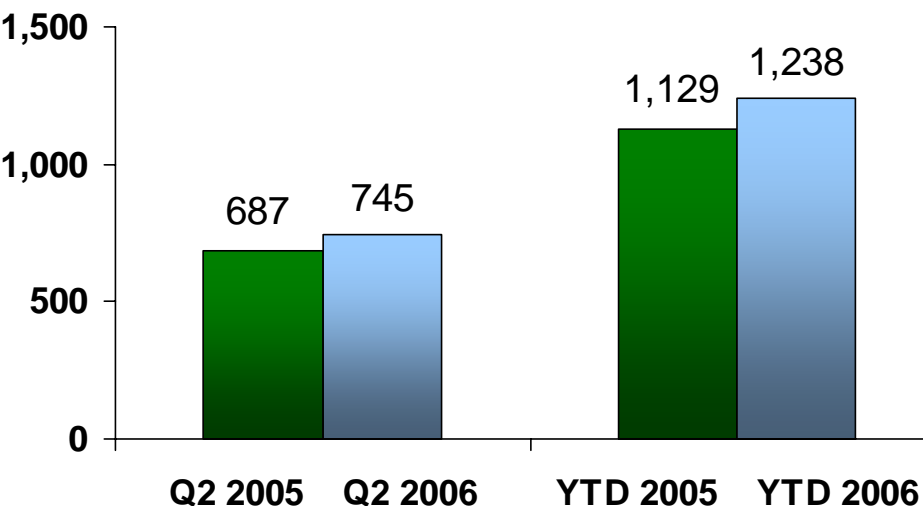
- **G&D operating margins up 90 bps in Q2 2006 primarily driven by strong performance at IDS**

* After eliminations of intercompany operating profit

Continued focus on execution and margin expansion

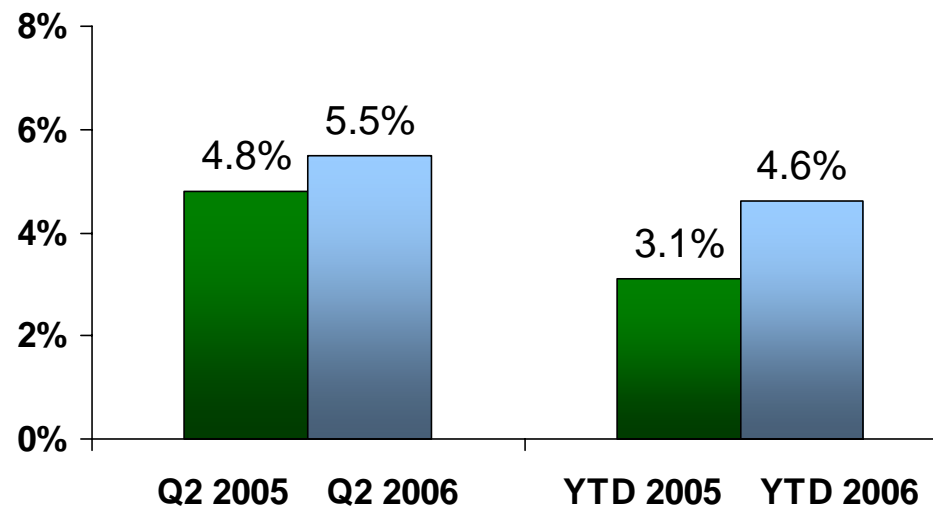
Raytheon Aircraft Company

Sales (\$M)



- Sales up 8 percent in Q2 2006, up 10 percent year-to-date

Operating Margins



- Operating margins up 70 bps in Q2 2006, up 150 bps year-to-date

Strong volume, favorable mix and continued cost and productivity improvements

Cash Flow

\$ Millions

	2nd Quarter		Six Months	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Net Income	201	310	367	597
Depreciation & Amortization	110	117	218	228
Working Capital	283	(143)	(351)	(619)
Other	226	155	312	238
Operating Cash Flow from Cont. Ops.	820	439	546	444
Capital Spending & Internal Software	(84)	(83)	(148)	(131)
Free Cash Flow from Cont. Ops.	736	356	398	313

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>
Bookings (\$B)	22.0 - 23.0	22.0 - 23.0
Sales (\$B)	23.1 - 23.6	23.1 - 23.6
FAS/CAS Pension Expense (\$M)	378*	360
Interest expense, net (\$M)	220 - 230	220 - 230
Diluted Shares (M)	449-451	449- 451
GAAP EPS from Cont. Ops	\$2.60 - \$2.70*	\$2.55 - \$2.65
Net Debt (\$B)	2.3 - 2.5*	2.4 - 2.6
Operating Cash Flow (\$B)	2.0 - 2.2*	1.9 - 2.1
ROIC (%)	8.2 - 8.6*	8.0 – 8.4

* Denotes change from prior guidance

** As of April 27, 2006

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

Lowest net debt in over 10 years, continuing improvement on ROIC

EPS from Continuing Operations Outlook Update

2006 Full Year

Prior Guidance

\$2.55 - \$2.65

Improved performance IDS

\$0.05

Improved performance RAC

\$0.01

FAS/CAS pension expense

(\$0.03)

Warrants adjustment

\$0.05

Proposed ERISA settlement

(\$0.01)

Other items

(\$0.02)

Current Guidance

\$2.60 - \$2.70

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> **
IDS	4.0-4.2	15.7-16.2%*	14.8-15.3%
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	175M-185M*	165M-175M
Other	0.7-0.8	(40M)-(50M)	(40M)-(50M)
Corp and Elims	<u>(1.6)</u>	<u>(205M)-(220M)*</u>	<u>(195M)-(210M)</u>
Subtotal	\$23.1-\$23.6	10.1-10.3%*	9.9-10.1%
FAS/CAS Inc Adj		-1.6%*	-1.5%
Total Cont. Ops	\$23.1-\$23.6	8.5-8.7%*	8.4-8.6%
G&D After elims	\$19.2-\$19.7	11.9-12.1%*	11.7-11.9%

* Denotes change from prior guidance

** As of April 27, 2006

Operational improvements driving margin expansion

2006 Financial Outlook: Cash Flow

\$ Millions

	Current	Prior**
Income from continuing operations	\$1.1B - \$1.2B	\$1.1B - \$1.2B
Depreciation & amortization	450 - 470	450 - 470
Working Capital	50 - 100*	-
Discretionary pension funding	(200)	(200)
Non cash tax expense	220 - 240	220 - 240
FAS/CAS income adjustment	378*	360
Other	(15) - 15	(15) - 15
Operating cash flow	\$2.0B - \$2.2B*	\$1.9B - \$2.1B
Capital & internal software spending	(530) - (480)	(530) - (480)
Free cash flow	\$1.5B - \$1.7B*	\$1.4B - \$1.6B

* Denotes change from prior guidance

** As of April 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.

Summary

- 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: By Quarter

	Q3	Q4	Total
Sales	24.5%*	29.5%*	\$23.1B - \$23.6B
EPS	22 - 24%*	25 - 27%*	\$2.60-\$2.70*
Operating Cash Flow	\$475M - \$525M*	\$1.1B - \$1.2B*	\$2.0B-\$2.2B*

* Denotes change from prior guidance

2006 Financial Outlook: Government and Defense

	<u>Current</u>	<u>Prior**</u>
Bookings (\$B)	18.0-19.0	18.0-19.0
Net Sales (\$B)***	19.2-19.7	19.2-19.7
Op. Margin (%)***	11.9-12.1*	11.7-11.9
Operating Cash Flow (\$B)	1.7-1.9*	1.6-1.8

* Denotes change from prior guidance

** As of April 27, 2006

*** After elimination of intercompany sales

2006 Pension Expense

\$ Millions

	<u>Current</u>	<u>Prior**</u>
FAS	(878)	(810)
CAS	(500)	(450)
Income Adjustment	(378)	(360)
CAS Recovery	500	450
Funding Required	(442)	(438)
Discretionary Funding	(200) *	(200) *

* Actual cash payment made in Jan, 2006

** As of April 27, 2006

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 potential effects from pension reform.

Raytheon Aircraft – Delivery Forecast

2005 Actual		Current Forecast	Prior Forecast*	Change
0	Hawker 4000	5	10	(5)
58	Hawker 800XP/850XP	63	63	0
53	Hawker 400XP	51	48	3
30	Premier I	37	40	(3)
114	King Air	142	137	5
99	Pistons	126	126	0
354	Total Deliveries	424	424	0

* As of December 1, 2005

Includes Special Mission aircraft units but excludes JPATS delivery units

Return on Invested Capital Calculation

Outlook
2006

Income from Continuing Operations
Net Interest Expense, after-tax*
Lease Expense, after-tax*

Combined

Return

\$1,385-\$1,430

Net Debt**

Equity**

Lease expense x 8, plus Financial Guarantees* *

Combined

Invested Capital

\$16,900-\$16,700

ROIC

8.2% - 8.6%

*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.