Raytheon

Fourth Quarter Earnings

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Forward-Looking Statements

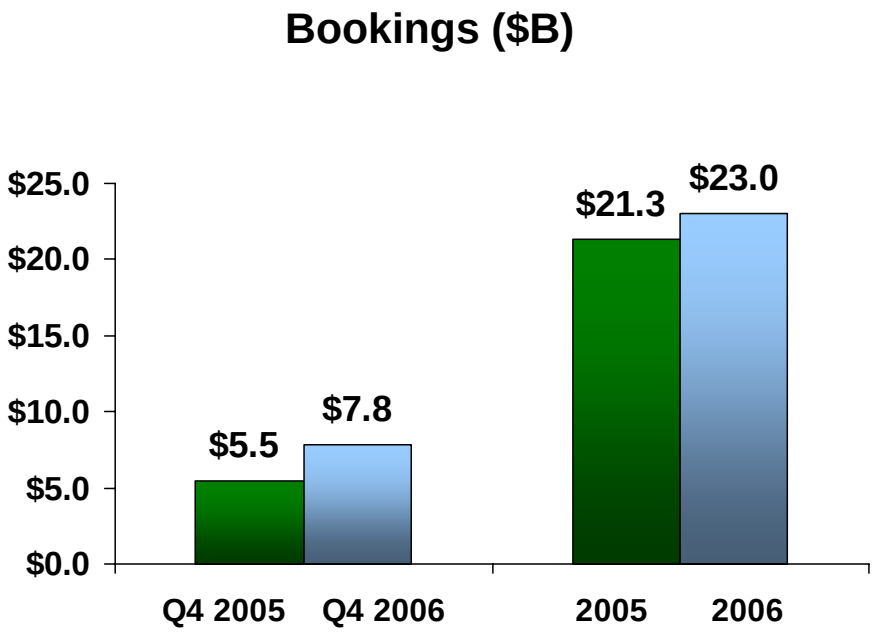
This release and the attachments contain forward-looking statements, including information regarding the anticipated sale of Raytheon Aircraft Company, and the Company's 2007 financial outlook, future plans, objectives, business prospects and anticipated financial performance. These forward-looking statements 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: the risks associated with the satisfaction of the closing conditions to the RAC transaction; 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 Flight Options' ability to compete and meet its financial objectives; 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 the potential disruption to RAC's business during the period prior to the closing of the 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 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 release and the attachments or to update them to reflect events or circumstances occurring after the date of this release.

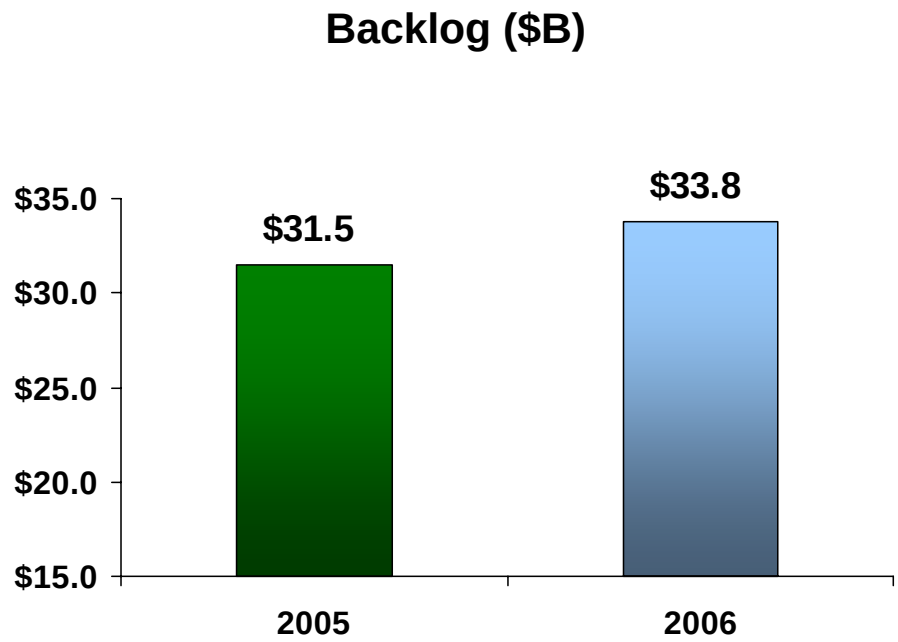
Q4 and Full-Year 2006 Highlights

- Strong bookings of $7.8 billion in quarter; record backlog of $33.8 billion, up $2.3 billion from $31.5 billion in 2005
- Net sales of $5.7 billion, up 12 percent; $20.3 billion, up 7 percent for full-year
- EPS from continuing operations of $0.65 in quarter, up 27 percent; $2.46 for year, up 37 percent
- Operating cash flow from continuing operations of $1.3 billion in quarter and $2.5 billion for full-year, a record for both quarter and full-year
- Net debt of $1.5 billion, reduction of $1.7 billion for year. Credit rating upgraded
- Full-year 2007 guidance updated

Note: Raytheon is now reporting Raytheon Aircraft Company as a discontinued operation for all periods presented

Bookings and Backlog





Bookings up $2.3 billion in Q4 2006, up $1.7 billion in 2006

MS backlog increased 18 percent; NCS increased 17 percent

8 percent increase in bookings in 2006; ended year with record backlog

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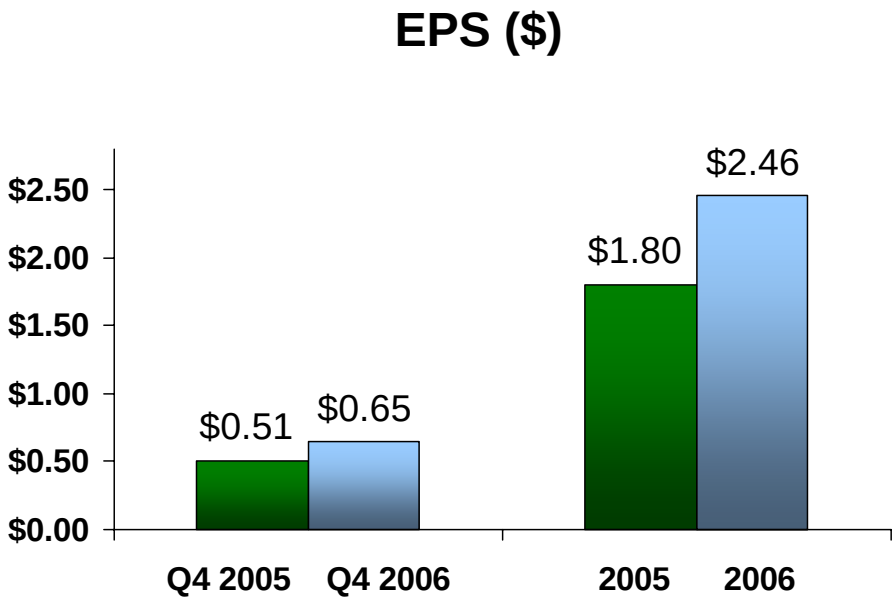
Earnings Per Share from Continuing Operations



2006 EPS increase primarily driven by improved performance at IDS, MS and NCS combined with lower net interest expense and a reduction in pension expense

Fourth Quarter

Fourth Quarter 2005 EPS		**$0.51**
Operational improvements		$0.16
• Growth	$0.10	
• Margin improvements	$0.06	
Other items		$0.05
Flight Options goodwill impairment		($0.07)*
Fourth Quarter 2006 EPS		**$0.65**

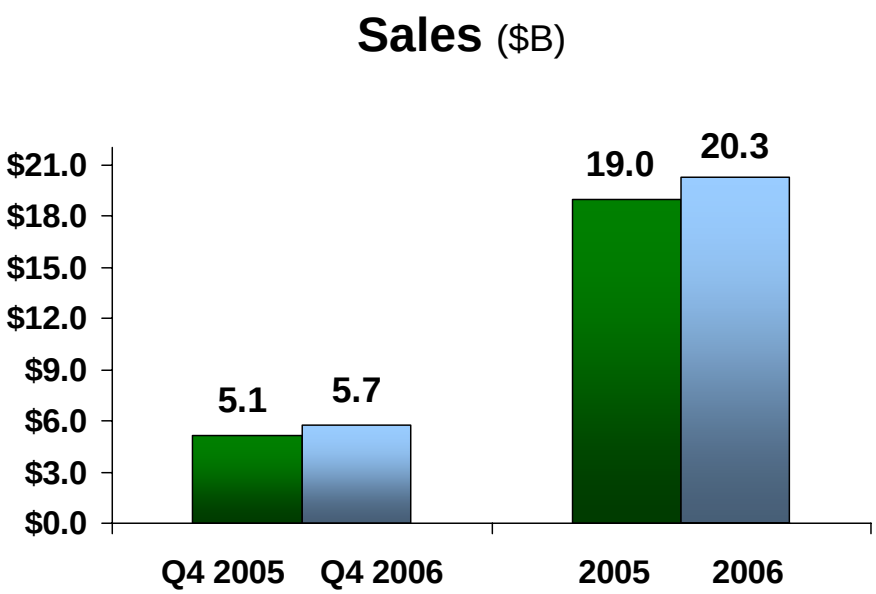
Full-Year

Full-Year 2005 EPS		**$1.80**
Operational improvements		$0.43
• Growth	$0.20	
• Margin improvements	$0.23	
Other items		$0.30
Flight Options goodwill impairment		($0.07)*
Full-Year 2006 EPS		**$2.46**

***** Q4 and full-year '06 impact ($0.11); Q4 and full-year '05 impact was ($0.04).

2006 EPS increased by 37 percent

Total Company Sales



Sales up 12 percent in Q4 2006 primarily driven by DDG 1000 sales at IDS, growth in the Combat Systems business at NCS and ramp up of Standard Missile at MS

Fourth Quarter Sales ($M)

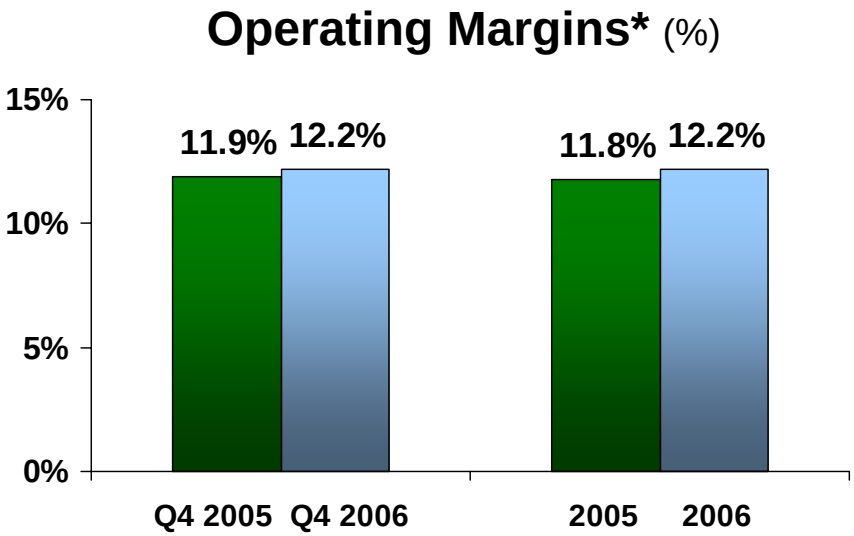
	Q4 2005	Q4 2006	% Change
IDS	1,042	1,189	14%
IIS	688	690	NM
MS	1,122	1,316	17%
NCS	806	1,011	25%
SAS	1,145	1,175	3%
RTSC	525	604	15%
Other	215	246	14%
Corp/Elims	(419)	(509)	NM
Total	**5,124**	**5,722**	**12%**

Full-Year Sales ($M)

	2005	2006	% Change
IDS	3,807	4,220	11%
IIS	2,509	2,560	2%
MS	4,124	4,503	9%
NCS	3,205	3,561	11%
SAS	4,175	4,319	3%
RTSC	1,980	2,049	3%
Other	781	828	6%
Corp/Elims	(1,543)	(1,749)	NM
Total	**19,038**	**20,291**	**7%**

Total Company sales up 7 percent in 2006

Defense Operating Margins



Defense operating margins up 30 bps in Q4 2006 primarily driven by strong performance at IDS, NCS and RTSC

Fourth Quarter Operating Margin (%)

	Q4 2005	Q4 2006	Net Change
IDS	14.8%	15.9%	110 bps
IIS	9.2%	9.1%	(10) bps
MS	10.5%	10.5%	NM
NCS	11.0%	11.6%	60 bps
SAS	14.1%	13.5%	(60) bps
RTSC	7.4%	7.8%	40 bps
Defense*	**11.9%**	**12.2%**	**30 bps**

Full-Year Operating Margin (%)

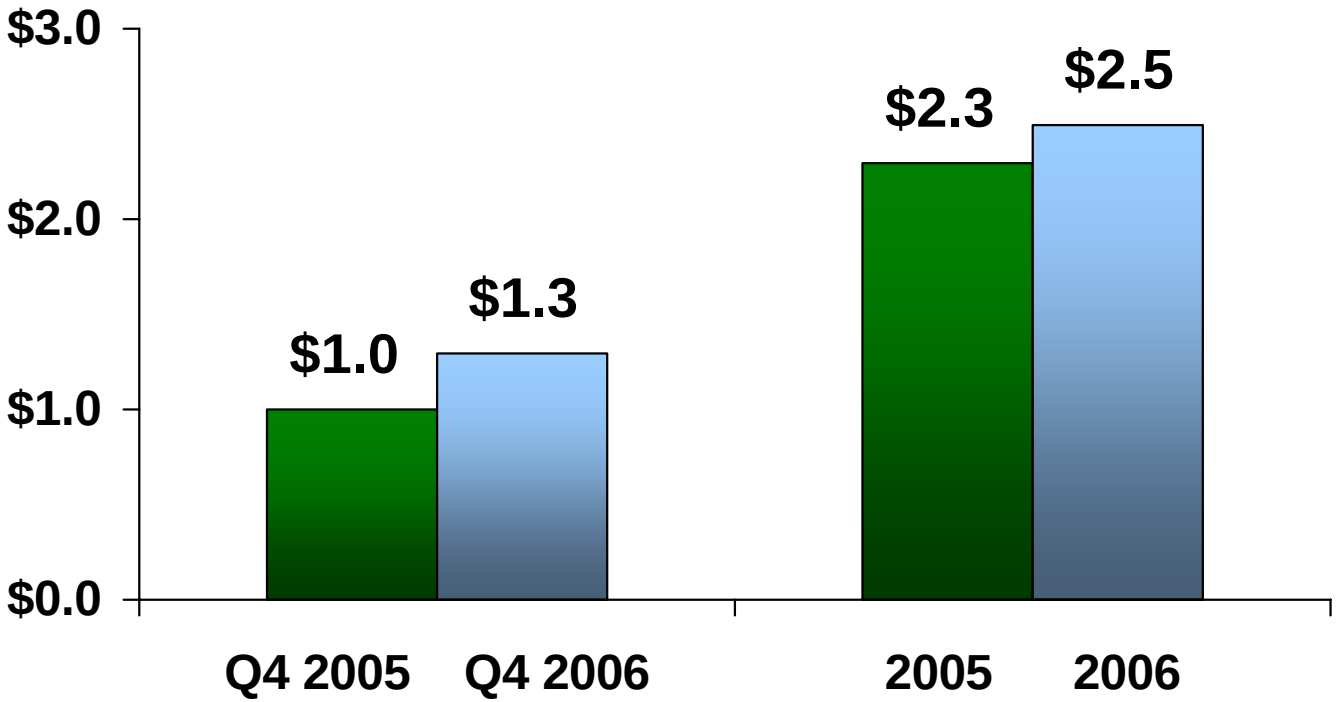
	2005	2006	Net Change
IDS	14.4%	16.4%	200 bps
IIS	9.1%	9.1%	NM
MS	10.5%	10.6%	10 bps
NCS	10.4%	10.6%	20 bps
SAS	14.5%	14.0%	(50) bps
RTSC	7.4%	7.2%	(20) bps
Defense*	**11.8%**	**12.2%**	**40 bps**

*** After eliminations of intercompany operating profit**

Defense operating margins up 40 bps in 2006

Operating Cash Flow

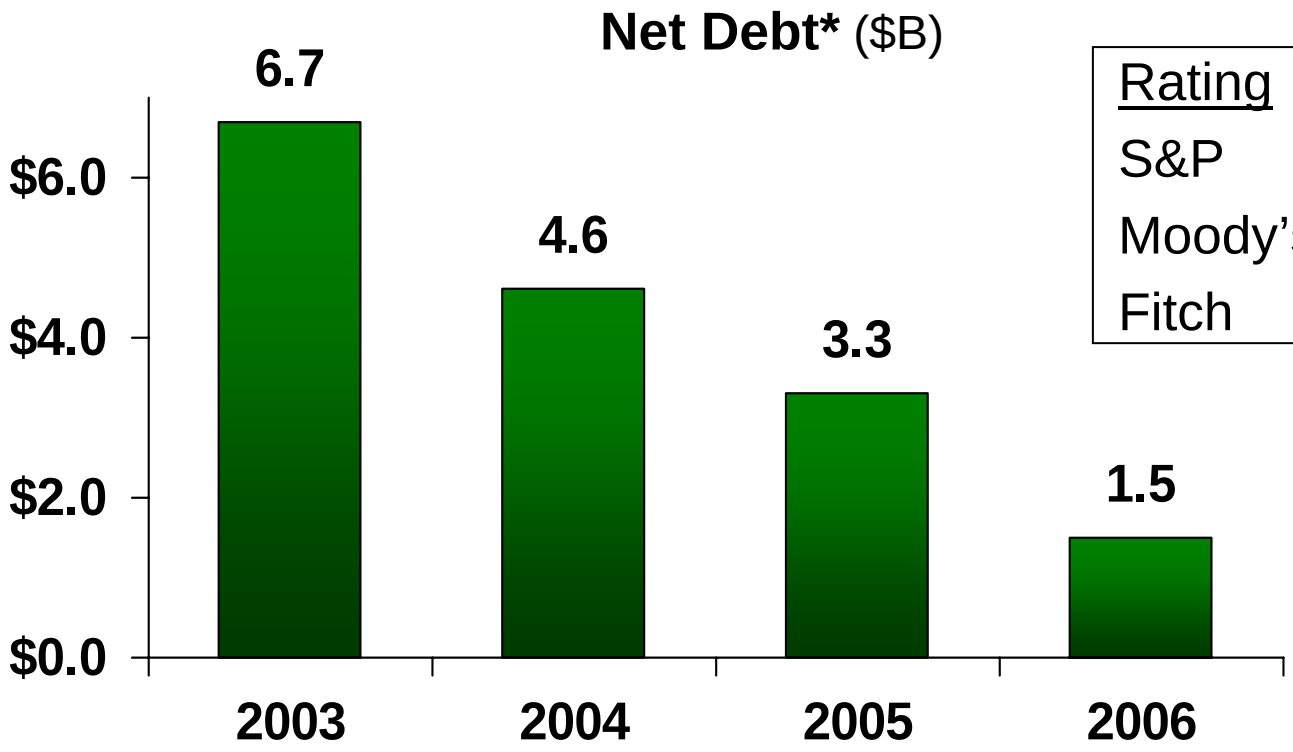
Operating Cash Flow from Continuing Operations ($B)



Cash up 30 percent in Q4 2006 primarily driven by improvements in working capital

Record operating cash for both fourth quarter and full-year 2006

Strong Balance Sheet



Rating		
S&P	*12/21/06*	BBB+
Moody's	*12/21/06*	Baa2**
Fitch	*01/02/07*	BBB+

Net Debt* to Cap. Ratio:	**42%**	**30%**	**23%**	**12%**

** Net Debt equals total debt less cash and cash equivalents*
*** Placed on review for upgrade to Baa1 on 12/21/06*

Ratings reflect solid financial foundation

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2007 Financial Outlook Update

	Current	Prior (12/21/06)
Bookings ($B)	**21.0 - 22.0**	**21.0 - 22.0**
Sales ($B)	**21.4 - 21.9***	**21.3 - 21.8**
FAS/CAS Pension Expense ($M)	**270**	**338**
Interest expense, net ($M)	**65 - 80**	***Not provided***
Diluted Shares (M)	**446 - 448**	***Not provided***
EPS from Continuing Operations	**$2.85 - $3.00***	**$2.75 - $2.90**
Operating Cash Flow from Cont. Ops. ($B)	**1.5 - 1.7***	**1.6 - 1.8**
ROIC (%) [1]	**8.2 - 8.7***	***Not comparable***

**** Denotes change from prior guidance***

1.) ROIC has been calculated using a revised ROIC definition, which adds back the cumulative impact of minimum pension liability/impact of adopting FAS 158. For more information on the revised ROIC calculation and the prior definition and the Company's use of ROIC, a non-GAAP financial measure, see pages 17 & 18.

Updated full-year guidance for EPS, sales, cash flow and ROIC

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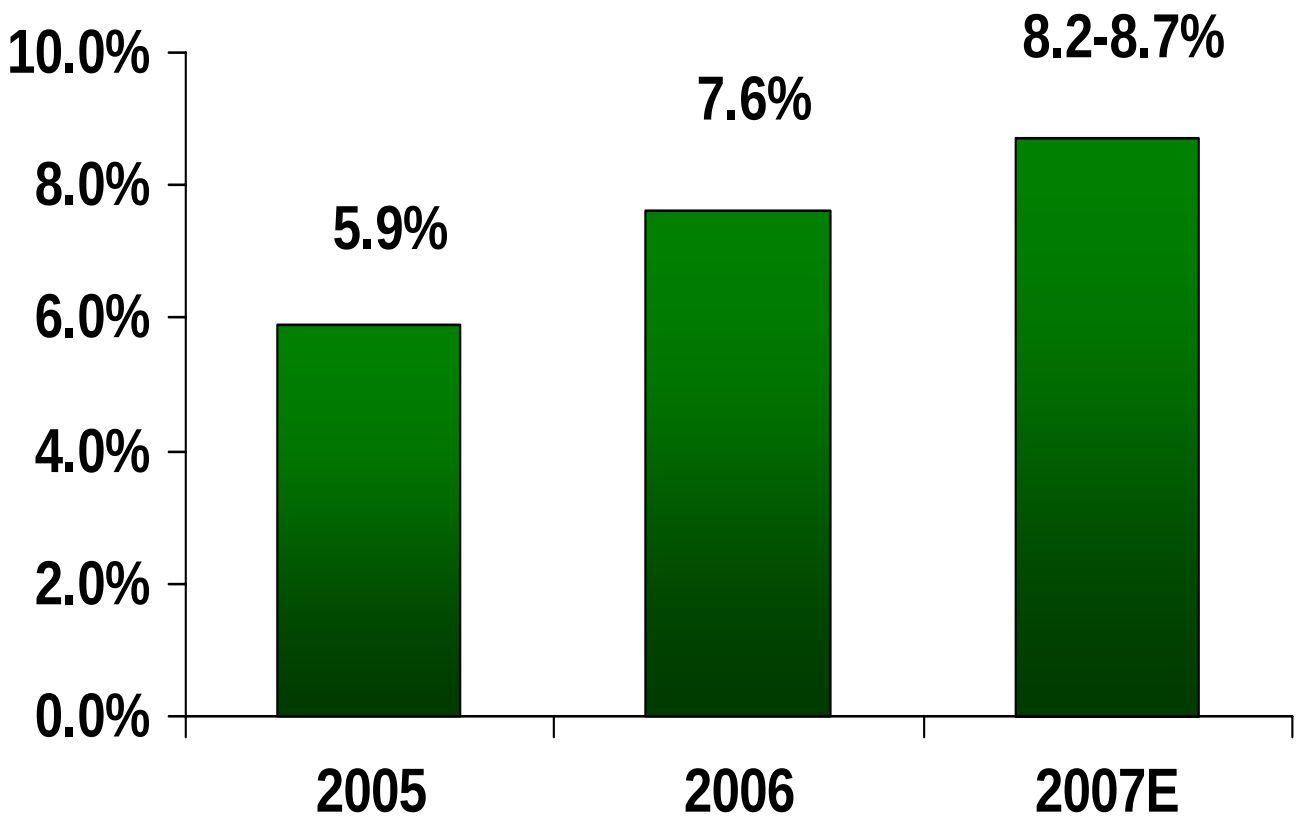
Return On Invested Capital (ROIC)



ROIC has been calculated using a revised ROIC definition, which adds back the cumulative impact of minimum pension liability/impact of adopting FAS 158. For more information on the revised ROIC calculation and the prior definition and the Company's use of ROIC, a non-GAAP financial measure, see pages 17 & 18.

A key metric driving shareholder value

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2007 Financial Outlook: By Business

	Sales ($B)	Operating Margins/Dollars
IDS	4.5-4.7	15.4-15.8%
IIS	2.6-2.8	9.1-9.5%
MS	4.6-4.8	10.5-10.9%
NCS	3.7-3.9	10.6-11.0%
SAS	4.5-4.7	13.4-13.8%
RTSC	2.1-2.3	7.2-7.6%
Other	0.7-0.8	(30M)-(40M)
Corp and Elims	(1.8)	(250M)-(260M)
Subtotal	$21.4-$21.9	10.9-11.2%
FAS/CAS Inc Adj		-1.2%
Total Cont. Ops	**$21.4-$21.9**	**9.7-10.0%**
Defense after elims	**$20.6-$21.1**	**11.9-12.2%**

Continued focus on execution

Summary

- Customer focus with intense execution
- Solid position in our core markets…strong profitable growth going forward.
- Strong technology portfolio – capability driven
- Excellent cash generation
- ROIC strategy….continues to deliver solid results

Well positioned for today….and tomorrow

Appendix

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2007 Financial Outlook: By Quarter

$ Millions except EPS

	2007 Estimates				
	Q1	Q2	Q3	Q4	Total
Sales	22%	24%	25%	29%	$21.4B - $21.9B
EPS	18 - 20%	20 - 23%	24 - 27%	30 - 33%	$2.85 - $3.00
Operating Cash Flow from Cont. Ops.	($475) - ($525)	$250 - $300	$650 - $700	$1.1B - $1.2B	$1.5B - $1.7B

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Pension Expense

$ Millions except EPS

	2007 Current Forecast*	2007 Prior Forecast (12/21/06)
FAS	(680)	(755)
CAS	(410)	(417)
Income Adjustment	(270)	(338)
EPS Impact of FAS/CAS Pension	($0.40)	($0.50)
CAS Recovery	410	417
Funding Required	(417)	(404)
Discretionary Funding	(400) **	(200)

Note: 2007 pension assumes a discount rate of 6.00% and a return on assets of 8.75% as of Dec. 31, 2006.

* ***Denotes change from prior guidance***

** ***Cash payment was made in Q1 2007***

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Revised Return on Invested Capital (ROIC) Calculation

$ Millions	Actual 2005	Actual 2006	Outlook 2007E
Income from cont. ops.	$818	$1,107	Combined
Net interest expense, after-tax*	$177	$129	
Lease expense, after-tax*	$67	$68	
Return	**$1,062**	**$1,304**	**$1,400 - 1,465**
Net debt**	$3,925	$2,380	Combined
Equity less investment in disc. ops.	$9,270	$9,626	
Lease exp. X 8, plus fin. guarantees	$2,702	$2,779	
Minimum pension liability/FAS 158	$2,001	$2,292	
Invested capital from cont. ops.* **	**$17,898**	**$17,077**	**$17,050 - 16,850**
ROIC	**5.9%**	**7.6%**	**8.2 - 8.7%**
* Effective tax rate	34.7%	34.4%	34.2%

* Effective tax rate

** Net debt is defined as total debt less cash and cash equivalents & is calculated using a 2 point average

*** Calculated using a 2 point average

Our revised definition of Return on Invested Capital (ROIC) is the same as our prior definition except shareholders' equity is now adjusted to add back the cumulative impact of minimum pension liability/impact of adopting FAS 158. We define 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), adding financial guarantees less net investment in Discontinued Operations, and adding back the cumulative minimum pension liability/impact of adopting FAS 158. 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 as a measure of the efficiency and effectiveness of its use of capital and as an element of management compensation.

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Prior Return on Invested Capital (ROIC) Calculation

$ Millions	Actual 2005	Actual 2006	Outlook 2007E
Income from cont. ops.	$818	$1,107	Combined
Net interest expense, after-tax*	$177	$129	
Lease expense, after-tax*	$67	$68	
Return	**$1,062**	**$1,304**	**$1,400 - 1,465**
Net debt**	$3,925	$2,380	Combined
Equity less investment in disc. ops.	$9,270	$9,626	
Lease exp. X 8, plus fin. guarantees	$2,702	$2,779	
Invested capital from cont. ops.* **	**$15,897**	**$14,785**	**$14,500 - 14,300**
ROIC	**6.7%**	**8.8%**	**9.7 - 10.2%**
* Effective tax rate	34.7%	34.4%	34.2%

* Effective tax rate

** Net debt is defined as total debt less cash and cash equivalents & is calculated using a 2 point average

*** Calculated using a 2 point average

Our prior definition of Return on Invested Capital (ROIC) was 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 less net investment in Discontinued Operations. 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 as a measure of the efficiency and effectiveness of its use of capital and as an element of management compensation.