

Raytheon Company Fourth Quarter Earnings

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Forward Looking Statements

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EPS Guidance Walk

Q4 2003

Prior Guidance	\$0.52-0.54
Gain on Sale of Investment	0.09
Loss on Repurchase of Debt	<u>(0.13)</u>
Adjusted Guidance	\$0.48-0.50
Actual Results	\$0.52

2004 Full Year

Prior Guidance	\$1.50-1.60
Change in pension	<u>(0.25)</u>
Adjusted Guidance	\$1.25-1.35

2004 Outlook: Pension Impact

	<u>2003</u>	<u>2004E</u>	<u>2005E</u>
EXPENSE			
FAS	(\$295)	(\$714)	(\$732)
CAS	<u>(186)</u>	<u>(256)</u>	<u>(339)</u>
Income Adjustment	(109)	(458)	(393)
EPS effect	(\$0.18)	(\$0.72)	(\$0.60)
CASH			
Funding Required	(59)	(318)	(316)
CAS Recovery	186	256	339

2004 Financial Outlook

(\$ Millions)

	<u>2003A</u>	<u>2004E</u>
Bookings	\$22,693	\$22.0B
Sales	\$18,109	\$19.5-20.0B
Op Income before FAS/CAS Adj	\$1,425	\$1,710-1,760
FAS/CAS Adjustment	(109)	(458)
Op Income	\$1,316	\$1,250-1,300
Interest	(487)	(420)
Diluted Shares	415.4	440.3
GAAP EPS from Cont. Ops	\$1.29	\$1.25-\$1.35
EPS Excl FAS/CAS Adj	\$1.47	\$1.97-\$2.07
Cont Ops Free Cash Flow	\$1,576	approx. \$1B
Total Free Cash Flow	\$1,043	approx. \$1B

2004 Outlook: By Business

	Sales (\$B)		Op. Margin %		Free Cash Flow (\$M)	
	<u>2003A</u>	<u>2004E</u>	<u>2003A</u>	<u>2004E</u>	<u>2003A</u>	<u>2004E</u>
IDS	2.9	+7-9%	11.6%	flat	318	200-250
IIS	2.0	+7-9%	9.5%	flat	88	100-150
MS	3.5	+6-8%	12.0%	11.0%-11.5%	244	150-200
NCS	2.8	+7-9%	0.7%	about 9%	115	50-100
SAS	3.7	+6-8%	13.4%	flat	365	100-150
RTSC	2.0	+5-7%	5.5%	about 7%	104	50-100
Total Defense	16.9	17.9-18.3	9.3%	10.3%-10.8%	1,234	750-850
RAC	2.1	+6-8%	0.1%	break even	20	0-50
Other	0.5	0.8	(34)M	(20)M	(55)	(25)-(75)
Corporate/elimis	(1.4)	(1.4)	(110)M	(156)M	377	250-300
Segment Total	18.1	19.5-20.0	7.9%	8.5%-9.0%	1,576	\$1B
FAS/CAS Inc Adj			-0.6%	-2.3%		
Total Cont. Ops	18.1	19.5-20.0	7.3%	6.2%-6.7%	1,576	\$1B

2004 Outlook: By Quarter

(\$ Millions except EPS)

	2004 Estimates				
	Q1	Q2	Q3	Q4	Total
Sales	23%	24%	26%	27%	\$19,500-20,000
EPS	15%	20-25%	25-30%	35%	\$1.25-1.35
Free Cash Flow	(900)-(1,000)	100-200	800-900	900-1,000	\$ 1,000
SAP Impact*	(400)	(300)	500	200	\$ -

* Included in the free cash flow number above

2004 Outlook: Free Cash Flow

(\$ Millions)

	<u>2004E</u>
Income from continuing operations	550-600
Depreciation	380
Amortization	70
Working Capital	50
Discontinued operations	(50)
Capital Spending	(480)
Internal use software spending	(70)
Taxes	220
FAS/CAS income adjustment	458
Other	<u>(153)</u>
Free Cash Flow	About \$1B

2004 Outlook: RAC Commercial Deliveries

<u>2003A</u>		<u>2004E</u>
0	Hawker Horizon	2
46	Hawker 800XP	47
23	Hawker 400XP (Beechjet)	29
29	Premier I	40
79	King Air	93
82	Pistons	98
<u>259</u>	Total	<u>309</u>

Note: Excludes special mission A/C

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Appendix

2003 Major Pursuits

Program Wins

- Cobra Judy
- DOE Threat Reduction
- FCS GSI
- Javelin UK
- JLENS
- KEI
- LCS
- MALD
- NATS RS2K
- Paveway
- PROCON
- UK PGB
- WMD Disposition

Program Losses

- Deep Space Network
- Greek Olympics
- NASA MOMS
- PGMM

2004 Outlook: Major Pursuits

First Half 2004

- F-15 Japan
- E-10A BMC2
- Japan PI-3
- Joint Common Missile
- LCS down-select
- MP RTIP
- STARS

Second Half 2004

- Algeria C4ISR
- ATFLIR Canada
- GOES ABI
- MRM
- Project P
- U2 CFS

RAC: Aircraft Financing Receivables

In \$ millions

	GA	Commuters	Total
Aircraft financing receivables at 12/31/2002	\$ 743	\$ 777	\$ 1,520
Loan originations	503	10	513
Principal repayments	(468)	(125)	(593)
Note Sale	(280)	-	(280)
Other	(21)	(154)	(175)
Aircraft financing receivables at 12/31/2003	\$ 477	\$ 508	\$ 985

*Receivables balances are gross amounts and do not include accrued interest and reserves

RACC: Commuter Status

1900 Unit Exposure

	<u>12/31/2001</u>	<u>12/31/2002</u>	<u>12/31/2003</u>
Financed Planes	391	296	254
Planes in Inventory	<u>124</u>	<u>137</u>	<u>95</u>
Total Planes	515	433	349

Reconciliation of Non-GAAP Measures

Reconciliation of Non-GAAP Financial Measures

	Actual - 2002					Actual - 2003				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
A. Free Cash Flow										
Operating cash flow from continuing operations	\$ (90)	\$ 552	\$ 540	\$ 1,233	\$ 2,235	\$ (435)	\$ 756	\$ 663	\$ 1,118	\$ 2,102
Capital spending	(85)	(105)	(96)	(172)	(458)	(58)	(79)	(106)	(185)	(428)
Internal use software spending	(26)	(26)	(42)	(44)	(138)	(21)	(28)	(22)	(27)	(98)
Free cash flow from continuing operations	\$ (201)	\$ 421	\$ 402	\$ 1,017	\$ 1,639	\$ (514)	\$ 649	\$ 535	\$ 906	\$ 1,576
Discontinued operations	(224)	(259)	(322)	(391)	(1,196)	(305)	(116)	(64)	(48)	(533)
Free cash flow	\$ (425)	\$ 162	\$ 80	\$ 626	\$ 443	\$ (819)	\$ 533	\$ 471	\$ 858	\$ 1,043
B. Net Debt										
Total debt	\$ 8,644	\$ 8,678	\$ 7,722	\$ 8,291		\$ 9,081	\$ 8,573	\$ 8,120	\$ 7,391	
Less cash	1,484	1,642	619	544		387	364	203	661	
Net Debt	\$ 7,160	\$ 7,036	\$ 7,103	\$ 7,747		\$ 8,694	\$ 8,209	\$ 7,917	\$ 6,730	
C. Operating income before FAS/CAS adjustment										
Operating income	\$ 353	\$ 454	\$ 455	\$ 521	\$ 1,783	\$ 313	\$ 383	\$ 168	\$ 452	\$ 1,316
FAS/CAS pension adjustment	(52)	(52)	(53)	(53)	(210)	28	27	27	27	109
Operating income before FAS/CAS adjustment	\$ 301	\$ 402	\$ 402	\$ 468	\$ 1,573	\$ 341	\$ 410	\$ 195	\$ 479	\$ 1,425
D. Economic EPS or EPS Before Pension Impact										
EPS from continuing operations	\$ 0.37	\$ 0.54	\$ 0.56	\$ 0.38	\$ 1.85	\$ 0.27	\$ 0.45	\$ 0.05	\$ 0.52	\$ 1.29
FAS/CAS pension adjustment	(0.09)	(0.09)	(0.09)	(0.09)	(0.36)	0.05	0.05	0.05	0.05	0.18
Economic EPS or EPS Before Pension Impact	\$ 0.28	\$ 0.45	\$ 0.47	\$ 0.29	\$ 1.49	\$ 0.32	\$ 0.50	\$ 0.10	\$ 0.57	\$ 1.47

Definitions: Free cash flow is defined as operating cash flow less capital spending and internal use software spending.

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

Operating income before FAS/CAS adjustment is defined as operating income adjusted for non cash FAS/CAS pension amount

Economic EPS is defined as EPS from continuing operations adjusted for the non cash FAS/CAS pension amount.