

Dear Fellow Shareholders,

Performance, relationships and solutions: These are the pillars that have supported the company's progress — and these are the principles, combined with our process discipline, that continue to deliver strong results.

Two thousand six was a year of record bookings, backlog and operating cash flow from continuing operations for the company, a year in which we achieved “organically”- driven sales growth of 7 percent — as well as a 37 percent increase in diluted earnings per share from continuing operations.

It was a year in which net debt — total debt less cash and cash equivalents — was reduced by \$1.7 billion to a year-end level of \$1.5 billion, the lowest level in more than 12 years.

We also improved our return on invested capital (ROIC) from 5.9 percent in 2005 to 7.6 percent in 2006, a 29 percent increase — with more than 19,000 employees trained in ROIC to date and additional employees planned for 2007.

It was a year in which the company took strategic steps to focus on our core government and defense businesses, announcing in December a definitive agreement to sell Raytheon Aircraft Company. We thank the team at Raytheon Aircraft for building on the Hawker® and Beechcraft® brands. It was also announced that, subject to the closing of the transaction, the Board of Directors authorized an increase in the current share repurchase program by an additional \$750 million and the early retirement of approximately \$1 billion in debt, in addition to approximately \$685 million of scheduled maturities in 2007.

Our long-term senior unsecured credit rating was upgraded by Standard & Poor's to BBB+ in December,

by Fitch to BBB+ in early January 2007 and by Moody's to Baa1 in early March 2007.

And it was a year in which the company's stock price increased more than 30 percent.

Building On Our Strengths

While we are pleased with our company's progress in 2006, our team's focus continues to be on the *future* success of our customers and stockholders. We believe that the way to do this is to draw on our technology, systems engineering expertise and our world-class talent to provide outstanding solutions to our customers — in government and industry, in countries around the world, and especially to those who are serving on the front lines in harm's way; their needs are a priority for our company.

One of the key drivers of these solutions, and of the company's growth, is innovation. At Raytheon, technology and innovation are the company's heritage and our foundation for the future. In the pages that follow, we will show you many of our capabilities, including our ability to integrate multiple systems to deliver a solution for our customers' mission needs. We call this core competency Mission Systems Integration.

One of the more unique characteristics of our company is our diverse portfolio of programs and capabilities, a portfolio that ranges from serving as national team integrator for the U.S. Navy's Zumwalt Class Destroyer program, to participation in thousands of programs in 80 countries around the world.

In some instances we are team leaders, in others we are partners with prime contractors, in others still we are suppliers or providers of Mission Support solutions.

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The common denominator in every contract is our innovative strength, customer focus and our depth of experience in the customer environment.

Raytheon’s Fundamentals For The Future

To develop, integrate and apply our capabilities effectively, to drive innovation, to meet our customers’ needs, to achieve growth, to enhance shareholder value, we must retain, attract and develop the best talent.

These fundamentals start with a core foundation in ethics, because that is essential to earning and maintaining the trust of our customers. We know that bad things happen to good people, but when they do, our team knows it is important to raise one’s hand at the earliest stage and ask for help. As part of this awareness process, we are continuing the transition I mentioned in last year’s letter from an ethics “training” regimen to focus more specifically on ongoing, lifelong ethics “education.” We believe good companies identify issues early and then apply the proper resources for resolution.

To ethics, we add a culture of learning, because companies that depend on innovation must draw upon the skills of lifelong learners. And a key element of the learning process is embedded in our Raytheon Six Sigma™ efforts. With each project and each employee experience, we learn more about process improvement and about providing value to the customer. Raytheon Six Sigma is now part of our DNA structure, and it continues to evolve to meet the needs of the business and our customers.

We are also using our learning initiatives to reinforce the skills that have made us successful in the past — and to add new capabilities necessary to remain

successful. We have initiated the Raytheon Certified Systems Architect program that is training and certifying a new generation of technical leaders to be capable of designing and integrating the mission solutions of the future. We have a number of certified architects — supported by close to 3,000 engineers trained in the principles of systems engineering and hundreds of lead systems engineers who have completed our extensive Systems Engineering Technical Development program. These training initiatives continue to improve our capabilities, expand our ranks of systems architecture and systems engineering experts, and provide the core skills required to grow our company.

We surround all of these fundamentals with a focus on diversity — of thought, as well as of gender, age, race, sexual preference and all the aspects that together make each of us unique. The company’s focus on inclusiveness and the external recognition we have received are very gratifying, but the journey continues. We will continue to pick up the pace of this important journey.

To continue to be world-class innovators, we also must continue to value different ideas and put a premium on respect, which our team defines as acknowledging one’s presence, valuing one’s opinion, providing ongoing feedback, showing appreciation and explaining why we do what we do. This is about all of Raytheon’s team members being valued members of a great team.

Looking Ahead

If we are to secure our company’s position — and our ability to continue to meet the needs of our customers — we not only need to think about our talent requirements today and tomorrow, but also the day after tomorrow.

How do we retain and attract generations of outstanding talent? How do we ensure that the talent pipeline remains full well into the future? For technology companies like Raytheon, this is clearly a strategic business issue.

As co-chair of the Business-Higher Education Forum's initiative on Securing America's Leadership in Science, Technology, Engineering and Mathematics, I can report to you that many companies and institutions are responding to this challenge.

At Raytheon, we are using a multipronged approach: sponsoring MATHCOUNTS®, which emphasizes math enrichment, partnering with VolunteerMatch™ and MATHCOUNTS to connect interested employees with opportunities to support math in their communities, investing in our Raytheon Scholars program for college scholarship assistance to children of employees, sponsoring FIRST Robotics school teams and scholarships, and moving forward with our major national initiative, MathMovesU™, aimed at inspiring interest and excitement in math among middle school students across the country.

We're just one voice, but many companies and many industries are looking at this issue, and together, we hope to make a difference in the lives of young students, showing them that the path that focuses on math and science leads to an exciting and rewarding future — and we hope to our door.

Those Who Serve

First, last and always, we want you to know that we are well aware of the context for all of our activities. These are uncertain times: Our men and women in uniform are deployed right now in harm's way. Our international allies and friends are important partners in defense and security around the world.

Ours is a culture that has enormous respect for service: A number of our employees are reservists on active duty and many others are veterans themselves, as were generations of Raytheon people before them. It is our goal in the years ahead to honor this commitment, to

build on the pillars of performance, relationships and solutions, to maintain process discipline — and to stay totally focused on contributing to the success of our customers, continuing to earn the trust of our shareholders, and creating and empowering innovative teams committed to excellence. Thank you for your confidence in us.

As always, a proud member of the Raytheon team,



William H. Swanson
Chairman and Chief Executive Officer

March 2007

