

## 2006 Stewardship Report

**Raytheon**

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Photo (cover): Holmes Run Stream in Falls Church, Va. See page 14 of this report to read about Raytheon's environmental programs.

## Dear Raytheon Stakeholder,

The meaning of performance in business certainly relates to shareholder value, which, of course, we all know is very important. But it also means many other things: being a good corporate citizen; earning the trust of our customers by doing business in an ethical manner; and creating a safe and welcoming work environment that encourages diversity in every sense of the word, including diversity of thought and opinion. It means caring for the environment around us and making corporate governance a priority in the way we relate to our shareholders. It means having a vision, a strategy, goals and values for our company — core principles that guide each and every employee, regardless of position.

At Raytheon, we believe that tending to these matters, and others, enables us to be good stewards of our company, so that we are consistently supporting our culture — a culture that builds a reputation with lasting value.

In this report, you will read about, for example, our efforts to promote employee health and wellness and a safe work environment, about reducing hazardous waste and solid waste, saving electricity, and reducing greenhouse gas emissions. We know and understand the importance of these efforts.

We also know that as a technology company, we are competing not only for contracts and programs, but also for *talent*. Only with a culture that values differences will we be able to retain and attract the best talent. Only by inviting and encouraging different perspectives will we be able to continue to generate the world-class, innovative solutions our customers have come to expect.

Stewardship requires *vision*. That's why the company is investing today in the technical talent pipeline for tomorrow — why our MathMovesU™ program

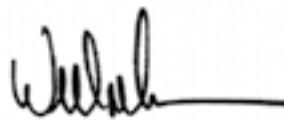
reaches out to middle school students to get them excited in math now so that they will pursue careers in engineering and science later.

Stewardship also requires listening. That's why we place such an emphasis on respect. Raytheon defines respect quite specifically, the way the company's employees define it: acknowledging one's presence, valuing one's opinion, providing ongoing feedback, showing appreciation and explaining why we do what we do. And that's why we strive to show you respect, as stakeholders of Raytheon.

In fact, we strive to be world-class in *all* of our stewardship activities. We believe that the way to get there is by building a culture of continuous improvement, a culture that regards today's "ceiling" of accomplishment as tomorrow's "floor."

I hope that this determination to constantly move forward comes through in the pages that follow — and that you will continue to have confidence in our company, its people and our journey.

As always, a proud member of the Raytheon team,



William H. Swanson  
Chairman and  
Chief Executive Officer





## Corporate Profile

For 85 years, Raytheon has been a leader in developing innovative technologies. From radio tubes of the 1920s and microwave technology of the 1940s, to present day systems for defense, homeland security and other government markets throughout the world, Raytheon has successfully built upon a pioneering tradition to become a global technology leader.

Today Raytheon provides innovative solutions to customers in 80 nations. With 2006 sales of \$20.3 billion, we are one of the world's largest defense contractors,

serving all branches of the United States military and other U.S. government agencies, the North Atlantic Treaty Organization (NATO), and many allied governments on every continent.

Through strategic vision, disciplined management and the talents of 73,000 dedicated employees, Raytheon is delivering operational advantages for customers every day, while helping them prepare for the missions of tomorrow.

## Raytheon Businesses

Raytheon's businesses deliver world-class products, systems and support for our customers and partners. The company is comprised of six businesses:



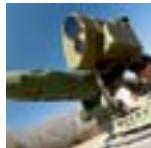
**Integrated Defense Systems**, headquartered in Tewksbury, Mass., is a leader in Mission Systems Integration, providing integrated air defense, maritime and joint battlespace solutions.



**Intelligence and Information Systems**, headquartered in Garland, Texas, provides U.S. government and international customers with innovative information solutions for modern intelligence, surveillance and reconnaissance technologies that support defense and homeland security missions.



**Missile Systems**, headquartered in Tucson, Ariz., is a leading missile manufacturer, developing and supporting a broad range of cutting-edge solutions for the armed forces of the U.S. and allied nations.



**Network Centric Systems**, headquartered in McKinney, Texas, develops and produces net-centric mission solutions for networked sensors, command and control, communications, air traffic management and homeland security.



**Space and Airborne Systems**, headquartered in El Segundo, Calif., is a world leader in space and aviation sensing technology for radar and electro-optical infrared systems and a provider of integrated solutions for domestic and international customers.



**Technical Services**, headquartered in Reston, Va., provides technology solutions for defense, government and commercial customers worldwide, specializing in Mission Support, customized engineering and manufacturing services, and base and range operations.

## Raytheon Core Markets

Our domain knowledge and technological leadership have created expanding opportunities in four core defense markets:



**Sensing:** Technologies that acquire data and create the information needed for effective battlespace decisions. At Raytheon, sensing technologies span the full electromagnetic spectrum to provide a broad range of capabilities, including traditional radio frequency and electro-optical sensors, as well as hyperspectral, acoustic and ultraviolet sensors.



**C3I (Command, Control, Communications and Intelligence):** Integrated systems that optimize operational planning and execution. Raytheon's C3I capabilities are extensive and continue to expand. They include situational awareness, surveillance, intelligence and analysis, communications, mission planning, battle management command and control, sensors and payloads, and integrated ground solutions.



**Effects:** Technologies that achieve specific actions or outcomes. Raytheon capabilities span the gamut of current and emerging effects technologies. Our technologies range from using missiles as a node on a network to directed-energy urban warfare and other lethal and nonlethal systems and applications.



**Mission Support:** Total life-cycle solutions that ensure NoDoubt™ performance. Raytheon Mission Support services provide integrated, customized solutions that span the entire mission life cycle — including not only the full breadth of Raytheon technologies, but also third-party and next-generation readiness support.



## Integrating Stewardship into All We Do

At Raytheon, we integrate stewardship into all we do. With global reach comes global responsibility, and we take that responsibility very seriously.

We drive stewardship practices from the top — directly from the Board of Directors, the CEO and senior leadership team. They all have accountability for stewardship, supported by strong corporate functions. The functions set the standards for stewardship, develop results-driven programs, and monitor and audit our progress against goals.

The core aspects of how we manage stewardship within Raytheon are outlined on the following page and discussed in subsequent sections of this report. (Note: Raytheon Aircraft Company was recently sold and is not included in the discussions, charts and metrics of this report, except where specifically noted.)

## **Governance and Guiding Principles**

Good stewardship begins with good governance. Our commitment to being a leader in corporate governance begins with Raytheon's Board of Directors. The Board oversees stewardship and corporate governance primarily through the following committees: Audit, Governance and Nominating, Management Development and Compensation, and Public Affairs. Our Board members believe that a commitment to good governance enhances the company's ability to advance the interests of shareholders, customers, employees and the broader community.

## **Focusing on Ethics**

Stewardship requires that we make good decisions with the highest degree of integrity. Our ethics program has a long history of excellence and governs all of our business decisions at Raytheon. Our leaders, starting with the Board of Directors, CEO and senior management, are committed to maintaining the highest standards of ethical business practices. The same commitment extends to every employee as set forth in our company values. Raytheon's values delineate the ethical and integrity points on our organizational compass. They empower us to do what is right, and they are among the important benchmarks by which we measure our performance. Raytheon's values focus on four priorities: People, Integrity, Commitment and Excellence.

## **Putting People First**

Treating people with respect and dignity is a core value at Raytheon. We are committed to the highest standards for creating and maintaining a safe, healthy and talented workforce that reflects the diversity of the communities where we operate. To promote these initiatives, we have a number of health and wellness, work/life and safety programs in place. Most importantly, we strive to create an inclusive culture where every one of our employees feels valued and empowered to perform at his or her peak level, regardless of age, race, gender, sexual orientation or physical ability.

## **Reducing Our Environmental Impact**

Raytheon's Environmental, Health and Safety program pursues the highest standards for the safe operation of company facilities and the protection of the environment. We strive to exceed regulatory compliance standards and establish goals for eliminating solid and hazardous waste. Our energy program is committed to energy efficiency through partnerships with the federal government, sponsorship of energy industry activities, and participation in various state and local initiatives.

## **Supporting Our Communities**

Raytheon works closely with a wide range of stakeholders in many communities, including our neighbors and governments in the towns and cities where we have operations. We also work with many suppliers and customers to further our stewardship goals — and theirs. Through our corporate giving program, we have invested heavily in two issues of long-term national importance: math and science education, and natural disaster recovery. Our signature program in math and science education is MathMovesU™, which promotes math and science education among middle school students to inspire them to pursue those fields in higher education and ultimately into future careers.

## **Improving Products and Processes**

Compliance, ethics, workplace safety, employee wellness, inclusion and environmental responsibility are the building blocks for integrating stewardship into every aspect of our business. Many other parts of Raytheon's organization — Engineering, Technology and Research, Operations and Performance Excellence, to name a few — provide key support to our stewardship goals. These goals are to continuously improve our internal processes and our products to help our customers succeed.

## **2006 Awards and Highlights**

We are pleased when external stakeholders recognize our accomplishments, and we are privileged to have received many awards during 2006 — including several noted at the end of this report. We also have long-established internal award programs that recognize the best accomplishments within Raytheon that drive us toward our stewardship goals.



## Governance and Guiding Principles

Sound corporate governance provides the foundation for effective stewardship and begins with the Board of Directors. The Raytheon Board operates within a progressive governance framework that promotes our company's ability to advance the interests of shareholders, customers, employees and the broader community. Each of Raytheon's outside directors qualifies as independent under standards established by the New York Stock Exchange and set forth in Raytheon's governance principles. All four of the Board's key committees are composed entirely of independent directors.

Since 2002, we have had a strong lead director elected by the Board who has clearly defined roles and responsibilities and works closely with the Chairman and CEO. Our lead director helps formulate Board agendas, leads executive sessions of the Board, and is directly accessible to shareholders by e-mail or through the company website.

These touchstones of progressive governance, coupled with the directors' commitment to transparency and ongoing participation in hands-on ethics and compliance education, set the tone for Raytheon's strong stewardship performance.

## Independence and Accountability

Raytheon believes that maintaining contemporary governance practices is a continuing process. In recent years, the Board has adopted a number of best practices to enhance accountability to shareholders. Recent improvements in governance include the elimination of both Raytheon's "poison pill" barrier to hostile takeover and the segmentation of the Board into classes of directors elected to staggered terms. Currently, Raytheon has no "poison pill" and the entire Board is elected annually. In addition, in 2006, we implemented a new by-law providing for majority voting in uncontested elections. Under this by-law, the shareholder votes cast "for" an uncontested Board nominee must exceed the votes cast "against," or the director must submit his or her resignation to the Board. These and other improvements, including robust stock ownership guidelines for directors and executive officers, have established Raytheon as a leader in contemporary governance practices. In recognition of our efforts, Raytheon has received increasingly high scores from leading corporate governance groups, including a recent governance performance rating of outperforming 87.1 percent of companies in the S&P 500 and 98 percent of the companies in our industry grouping.

## Transparency

We have also enhanced our transparency procedures in response to the passage of the Sarbanes-Oxley Act of 2002 to ensure that information required to be disclosed is appropriately documented, processed, summarized and reported in a timely manner. Raytheon's Disclosure Committee assists senior management in helping to ensure that company disclosures are accurate and complete and fairly report Raytheon's financial condition and results of operations in all material respects.

## Stewardship

Among the Board's committees, the Public Affairs Committee plays the leading role on corporate stewardship issues. The Committee monitors compliance and, when appropriate, recommends new policies to the full Board in the following areas: environmental protection, health and safety, ethics, regulatory compliance, charitable contributions and community relations, government relations, crisis management and emergency preparedness. Additionally, the Committee identifies and brings to the attention of the Board current and emerging public policy trends and issues affecting Raytheon and our various constituencies.

Raytheon constantly strives to ensure contemporary, balanced and transparent corporate governance, and thereby sets the stage for exemplary corporate stewardship.



## Vision

To be the most admired defense and aerospace systems supplier through world-class people and technology.



## Strategy

- Focus on key strategic pursuits, **Technology and Mission Assurance** to protect and grow our position in our four core defense markets: Sensing, Effects, C3I and Mission Support.
- Leverage our domain knowledge in these core defense markets to develop opportunities in adjacent markets and expand our **Mission Systems Integration** positions.
- Leverage our expertise to expand and serve our international customers.
- Be a **Customer Focused** company based on: Performance, Relationships, Solutions.



## Goals

- Customer — Be regarded as a Customer Focused company.
- Growth — Grow revenue faster than the market. Build on good performance in improving cash flow. Execute well and with predictability.
- People — Retain and attract world-class talent while providing superior opportunities for employee development. Treat all employees with respect. Leverage our diversity efforts as a competitive advantage, continuing Raytheon's leadership in diversity.
- Productivity — Improve ROIC for Raytheon Company. Take Raytheon Six Sigma™ to the next level, further engaging customers and partners. Deliver greater value and predictability through the Integrated Product Development System (IPDS), Earned Value Management System (EVMS) and Capability Maturity Model® Integration (CMMI®).



## Values

- People — Treat people with respect and dignity. Welcome diversity and diverse opinions. Help our fellow employees improve their skills. Recognize and reward accomplishment. Foster teamwork and collaboration.
- Integrity — Be honest, forthright and trustworthy. Use straight talk; no hidden agendas. Respect ethics, law and regulation.
- Commitment — Honor commitments to customers, shareholders, the community and each other. Accept personal responsibility to meet commitments; be accountable.
- Excellence — Improve performance continually. Stress quality, productivity, growth, best practices and measurement. Always strive to be the best.



## Focusing on Ethics

Stewardship is about making good decisions with the highest degree of integrity. Companies that have integrated the highest ethical standards into their culture are better run — better for their employees, better for their customers and better for their shareholders.

We are proud of the ethical commitment of Raytheon employees worldwide. Exemplary ethical behavior is

critical to the stewardship of our company's reputation, as well as the relationships we have with a multitude of stakeholders.

Ethics awareness is actively encouraged through a variety of educational initiatives with our Board, our employees, our suppliers and our customers.

## Ethics in Our Workplace

Building and maintaining a culture of integrity is highly valued at Raytheon. We reinforce the critical significance of ethical leadership at all levels. Our Board of Directors and senior leadership team receive regular briefings on the ethics program and participate in focused ethics discussions to reflect upon and inspire our culture of integrity. In support of this leadership, we have had a well-recognized ethics and compliance program in place for more than 20 years. The primary program elements of education, counseling and investigation help employees learn and obtain advice on the proper courses of action, while holding each of us accountable for adhering to high ethical standards.

The importance of ethics in the daily work of our employees is emphasized through our extensive ethics education program. The foundation of the program is our Code of Conduct, which articulates rules and policies consistent with our company values. The Code of Conduct was updated and issued to all employees this year, and is being reinforced with a regular series of Web-based "Know the Code" articles designed to explore the real-life application of the code in our workplace.

## Ethics Connection

Our Ethics Connection classroom sessions provide an opportunity for all employees to discuss video vignettes based on actual ethics cases, to spot issues and guide ethical decision-making. Our ethics education program also features online compliance modules, which employees are required to access to gain more in-depth knowledge in a variety of topics, many directly related to the defense industry. We have deployed an online ethical leadership education module, which is a required course of study for all levels of supervisors, managers and leaders. This course helps define ethical leadership, illustrates behaviors that demonstrate ethical leadership, and features Raytheon employees discussing their ethical expectations of our leaders.

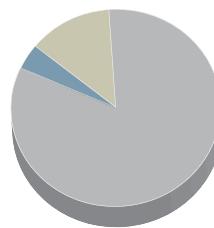
## Ethical Business Conduct

At Raytheon, ethical leadership is a core performance competency and is measured on a regular basis. Our business leaders report ethics program activity, employee opinion survey results and related metrics to review successes, identify areas for improvement and share best practices. In the 2006 sample employee opinion survey, 85 percent agreed that Raytheon is committed to ethical business conduct and 83 percent agreed that top management talks about the importance of ethics and that supervisors set a good ethical example; these were some of the most favorably rated responses in the survey.

Photo (left): Raytheon employees participate in ethics classes that align with the ethical principles set forth in the company's values of People, Integrity, Commitment and Excellence.

Being ethical was rated the top "optimal Raytheon engineer attribute" by 76 percent of 1,100 recently hired Raytheon engineers surveyed in 2006.

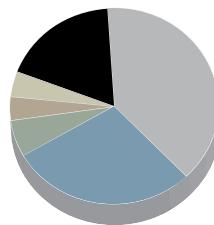
The emphasis we continuously place upon ethical business conduct squarely aligns with Raytheon's important role supporting our country's defense and homeland security missions.



**1,741 Total Contacts in 2006\***

■ 83% Seeking Advice  
■ 13% Alleged Misconduct  
■ 4% Personnel Concerns

\* Ninety percent of employees who contact Raytheon's ethics office choose to identify themselves. Approximately 10 percent of the calls received remain anonymous.



**140 Investigations with Substantiated Allegations in 2006**

■ 39% Labor Reporting  
■ 29% Misuse of Assets  
■ 6% Conflict of Interest  
■ 4% Records Falsification  
■ 4% Quality/Manufacturing  
■ 18% All Others

**85%**

Eighty five percent of employees polled in our 2006 sample employee opinion survey agreed Raytheon is committed to ethical business conduct.



## Putting People First

The talent of our people is one of Raytheon's major strengths. Valuing our employees begins with providing a safe, healthy and dynamic work environment. Our goal is to have an injury-free workplace and to make Raytheon one of the safest places in the world to work. Our responsibilities also extend beyond workplace safety to the health and well-being of our employees and their families. We offer a variety of health and wellness programs to assist with the mental, physical, emotional and social aspects of life, and we help employees find a more effective balance

between the demands of work and home in order to enhance the quality of life for the entire Raytheon community.

We also strive to create an atmosphere where everyone feels valued and empowered to perform at peak level. We are mindful of the many ways people are different, including but not limited to age, race, gender, sexual orientation or physical ability. To retain, develop and attract the best talent, it is essential that we continue our journey of inclusiveness. Over the past decade, we have made progress toward our goal to be a global leader in diversity.

## Health and Wellness

Raytheon's Health and Wellness program is designed to encourage healthy lifestyles while helping employees and family members stay healthy, avoid risk and manage disabilities and illnesses. With these issues in mind, we have targeted wellness programs in five areas:

**Physical Activity:** We offer numerous programs and facilities to promote physical activity among our employees. Our onsite fitness centers, onsite health centers and walking routes are used regularly by thousands of employees worldwide.

**Nutrition:** A variety of Raytheon programs offer advice on good nutrition. In 2007, we will launch a health risk assessment program. All employees will be invited to participate in this confidential, Web-based program. The goal is to help employees and their families understand their major health risks and periodically measure their status.

**Weight Management:** Raytheon has joined forces with Weight Watchers® to bring employees special savings on weight loss solutions. During 2006, approximately 800 Raytheon employees who participated in the Weight Watchers at Work program lost a combined total of 8,360 pounds.

**Tobacco Cessation:** Our tobacco cessation program offers employees access to counseling and nicotine replacement therapy to assist them in quitting tobacco habits. Many of our employees said they wanted to quit smoking but could not because their spouse or domestic partner also smoked. In response, we added spouses and domestic partners to the program.

**Stress Management:** We offer a variety of services to our employees to help reduce stress and enhance productivity and happiness, both on and off the job. Designed to meet diverse employee needs, these services range from onsite workshops and webinars to a robust work/life program.

## Work/Life Resources

Juggling commitments at work and home is no easy task. Raytheon's Work/Life program offers employees support in relieving stress, coping with loss or change, finding child or elder care resources, managing personal or work relationship problems, and dealing with legal and financial concerns. Ongoing efforts to support our employees in better balancing their work and personal lives include telecommuting, compressed work weeks and flex time.

In 2006, we introduced an online personal coaching pilot program, LifeResources, for employees and family

members. This pilot program was very successful; a follow-up survey showed that 90 percent of participants rated their experience as either "excellent" or "very good." As of January 2007, LifeResources personal coaching is available to all eligible Raytheon employees and their family members.

In addition, professional counselors are available any time, day or night, either over the phone or face-to-face, to consult with employees and family members about all kinds of issues. Employees and family members can receive up to eight counseling sessions per issue, per year, at no charge. All services are confidential.

### Raytheon Garners the Gold for Promoting Health Efforts

In 2006, the National Business Group on Health selected Raytheon as one of 33 companies that promote a healthy workplace.

Winners of the Best Employers for Healthy Lifestyles Awards were honored in one of three categories: Platinum, Gold and Silver. Raytheon was honored in the Gold category for creating cultural and environmental changes that support employees who are committed to long-term behavior changes. These efforts to promote healthy living are just another way Raytheon aims to be an employer of choice.

# 90%

Ninety percent of survey participants rated Raytheon's online personal coaching pilot program as either "excellent" or "very good."

## Safety First

### (See adjacent charts and related notes.)

Raytheon's safety programs are driven by a strong commitment from top-level management. Safety practices are a core component of every business and throughout the entire organization. Leaders and employees at all levels are actively involved in the programs and are held accountable for fulfilling their safety responsibilities.

We have made significant progress toward our goal of an injury-free workplace by implementing world-class safety programs and processes. Since 1997, we have reduced our Occupational Safety and Health Administration (OSHA) recordable injury rate by 78 percent and our lost workday injury rate by 74 percent. For 2006, our OSHA recordable injury rate was 0.79 per 100 employees, and our lost workday injury rate was 0.19 per 100 employees. These metrics are among the best we have ever achieved, but we are still not satisfied. In 2006, we had 591 preventable injuries, 144 of them serious enough to keep an employee out of work the next day.

**Safety Risk Assessments:** The most common injuries are ergonomic-related, slips and trips, and hand lacerations. In 2007, we will use additional tools to assess risk and reduce injuries, including a Web-based process to assess job hazards across the company.

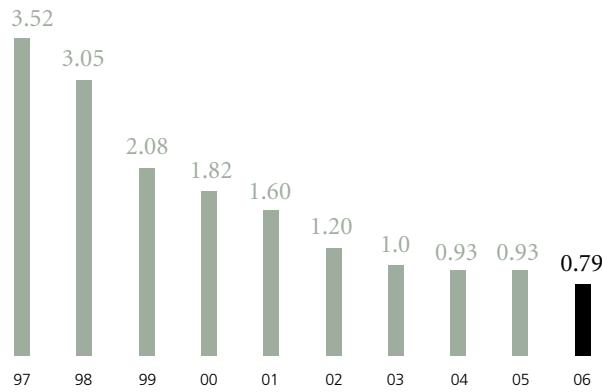
**Ergonomics:** Ergonomic injuries include those caused by pushing, pulling, lifting, lowering, carrying or engaging in repetitive motion. Since roughly one-third of our injuries are ergonomic-related, reducing these injuries will continue to be a major focus during 2007. An internal team has developed online tools and surveys for assessing ergonomic risks associated with workstations, and we will roll out the assessment program at all major locations.

**Asset Protection Program:** Raytheon has a comprehensive program to protect company equipment, infrastructure, buildings — and the employees who work in them — from fire, natural disaster, business interruption and other losses. The program includes proactive processes and regular facility inspections by third-party loss control engineers and by internal company experts. Raytheon's asset protection program has enabled us to maintain a "Highly Protected Risk Status" with our property insurers for many years.

## Ensuring Environmental and Safety Compliance:

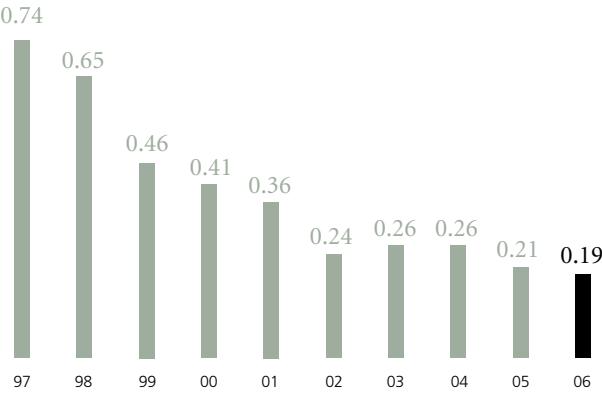
Our global responsibility is to ensure full compliance with all environmental, health and safety laws and regulations, as well as internal Raytheon standards. In 2006, federal, state and local regulatory agencies conducted 107 environmental and safety inspections of Raytheon operating locations. Seven notices of violations (NOVs) were issued — four related to environmental management and three related to safety issues. Two of the safety NOVs resulted in fines totaling \$16,200. Corrective actions have been completed. For all NOVs, we performed thorough root-cause analyses and shared "lessons learned" across the company to prevent recurrence.

### OSHA Recordable Injuries Per 100 Employees\*



\* Does not include Raytheon Aircraft Company (RAC) data for 2006. With RAC included, the rate for 2006 is 0.95. RAC data is included for the years 1997-2005.

### Lost Workday Injuries Per 100 Employees\*



\* Does not include Raytheon Aircraft Company (RAC) data for 2006. With RAC included, the rate for 2006 is 0.20. RAC data is included for the years 1997-2005.

## Building an Inclusive Culture

At Raytheon, diversity is about inclusiveness. We strive to create an atmosphere where everyone feels valued and empowered to perform at peak level. We are "One Company" despite our many differences.

To retain and attract the best talent, it is essential that we continue our journey of inclusiveness. Over the past decade, we have continued to progress toward our goal of being a global leader in diversity.



## Raytheon Diversity

The Raytheon diversity insignia represents the multitude of people that create our diversity of talent, joining together and supporting each other. We are able to provide more innovative and powerful ideas through a diversity of backgrounds, thoughts, beliefs and experiences. The red star at the center of the insignia reflects the common values that are shared by every Raytheon employee.

### Diversity Vision

Raytheon's diversity vision is to build an inclusive culture that fully engages all employees and stakeholders to deliver superior business performance and to execute a strategy that ensures:

- the company retains, attracts and develops world-class people
- people are treated with dignity and respect
- difference is valued as a company core competency
- employees have the opportunity to reach their full potential and make their maximum contribution
- we enjoy world-class partnerships with our customers, suppliers, partners and other stakeholders

### Workforce Diversity

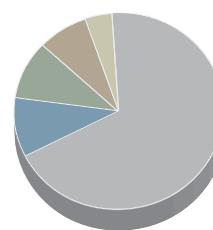
Our diversity initiatives are driven by members of Raytheon's Executive Diversity Leadership Team, who report directly to Raytheon's CEO. The initiatives are management-led and data-driven. In 1999, when we first surveyed employees about our commitment to diversity, they ranked us in the 50th percentile of companies across a range of industries. This rating climbed to the 84th percentile in 2005 and reached the 92nd percentile in 2006.

Our annual diversity summit is a pinnacle event where we focus our business leaders on being accountable for diversity actions. The event provides an opportunity for participants to learn both from each other and from outside experts. In 2006, we focused on including white males as full diversity partners.

Following the 2006 summit, each business and function developed action plans describing initiatives to strengthen diversity competency, communication, engagement and education. Another example of how we create inclusion is Raytheon's global mentoring program, which is available to all employees.

### Supplier Diversity

We strongly value and encourage diversity in our suppliers. Diversity of suppliers enhances our access to the widest range of talent and solutions to meet customer needs. Our supplier diversity program focuses on establishing and growing strategic business relationships with small-, minority-, women-, and veteran-owned businesses, as well as businesses located in a Historically Underutilized Business (HUB) zone.



### Raytheon Diversity Purchase Order Procurements for 2006

■ \$ 1.6B Small Businesses
■ \$241M Minority-owned Businesses
■ \$199M Women-owned Businesses
■ \$199M Veteran-owned Businesses
■ \$ 99M HUB Zone Businesses

We regularly recognize outstanding performance in promoting supplier diversity. At our most recent supplier diversity ceremony, we honored 41 employees for their work in providing procurement opportunities to diverse businesses. The awards recognized employee excellence in introducing new or competing technology, reducing costs and delivery schedules, and improving quality — all helping to ensure that we provide the best possible solutions to our customers.

In addition to internal recognition, our commitment to supplier diversity has been recognized by customers, industry and advocacy groups. Two Raytheon-nominated small businesses were named 2006 Regional Subcontractors of the Year by the U.S. Small Business Administration. In 2006, we also committed \$35 million in contract awards to 11 protégé companies under the U.S. Department of Defense Mentor-Protégé Program.



## Reducing Our Environmental Impact

Raytheon is determined to meet the highest standards of environmental excellence. Through persistent efforts, we have significantly reduced our energy consumption, waste and emissions while enhancing the safety of our workplaces. For Raytheon, the environmental aspects of good stewardship include the following:

**Full compliance with environmental laws and regulations.** Raytheon has had mature compliance programs for many years. We have developed Environmental, Health and Safety (EHS) standards that in many cases exceed regulatory

compliance. These standards establish minimum performance requirements for our facilities, which are verified during our EHS audits. The compliance programs have a threefold mission: maintaining robust compliance and audit programs today, actively preparing for future compliance requirements, and remediating historical contamination.

**Being a good neighbor.** We are committed to reducing waste, emissions and environmental incidents in our communities through pollution prevention, source reduction and clean up of past issues.

## Waste Elimination

(See adjacent charts and related notes.)

Eliminating waste entirely is a bold and ambitious vision, but we feel good about our progress. Since 1998, Raytheon has reduced hazardous waste by 81 percent and solid waste by 75 percent, normalized by revenue. During 2006, we generated 426 tons of solid waste and 56 tons of hazardous waste per billion dollars of sales. We recycled 59 percent of the waste we generated — our highest rate ever. These metrics are collected monthly and reported quarterly to our Board of Directors.

## Pollution Prevention

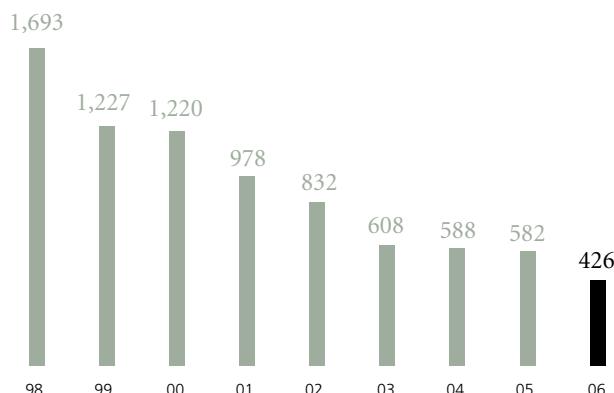
Pollution prevention is at the core of our waste minimization efforts. One example is our cooperative effort with the U.S. Air Force at Air Force Plant 44 in Tucson, Ariz. Four alternatives to hexavalent chromium-based conversion coatings plus two chromium-free paint primers were qualified by a team comprised of Raytheon and the National Defense Center for Environmental Excellence. The effort was in response to new environmental and health regulations.

## EHS Audit Program

Our robust internal EHS audit program performs an average of 25 audits per year. The average audit cycle time for major operating locations is three to five years. Locations are prioritized for audits based upon risk and the complexity of their operations. Internally developed protocol questions are used in the audits to assess compliance with federal and company EHS requirements. A corporate staff member leads each audit team, which includes members from multiple operating locations. Audit results are reported up through the business presidents and, ultimately, to the CEO.

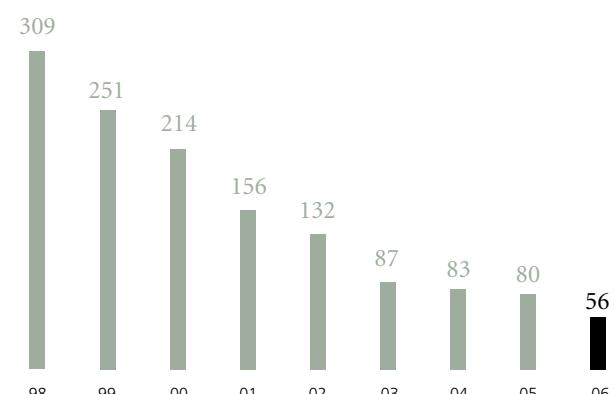
In 2006, we developed and deployed a formal process to enable locations that have demonstrated exemplary EHS performance over the past two years to apply for a waiver of selected EHS audit protocols. The program allows us to apply our EHS audit resources more effectively to where they are needed most. Our first applicant, Raytheon's facility in Aurora, Colo., succeeded in waiving four of the five audit protocols. The location was audited for Asset Protection programs only and received an "A" grade for the protocol. This site has also achieved "Star Site" status under the Occupational Safety and Health Administration Voluntary Protection Program and participates in the U.S. Environmental Protection Agency's Performance Track program.

## Solid Waste: Tons/\$B Sales\*



\* Data does not include Raytheon Aircraft Company (RAC) data for 2006. With RAC included, the rate for 2006 is 532. RAC data is included for the years 1998-2005.

## Hazardous Waste: Tons/\$B Sales\*



\* Data does not include Raytheon Aircraft Company (RAC) data for 2006. With RAC included, the rate for 2006 is 77. RAC data is included for the years 1998-2005.

81%

Raytheon has reduced hazardous waste by 81 percent since 1998, normalized by revenue.

### Environmentally Responsible Restoration

Raytheon invests significant resources in the responsible management of environmental clean ups of past contamination. Remediation managers continually explore and implement new remediation technologies to limit the risks to human health and the environment and to reduce program costs. Raytheon has 48 active remediation sites, with a future combined cost estimate of \$107 million (present value of \$75 million before recovery). Of the 48 sites, 28 are former and nine are current operating locations, with the remaining 11 sites being third-party landfill and recycling locations. Eight of the sites are classified as Federal Superfund sites.

### International Environmental Regulations

A growing number of international regulations (e.g., RoHS and REACH) restrict the use of certain hazardous materials in products. We are monitoring these developments, implementing compliance plans and preparing for potential supply chain impacts. We have established internal working groups and are coordinating with industry associations.

### Energy and Greenhouse Gas Emissions

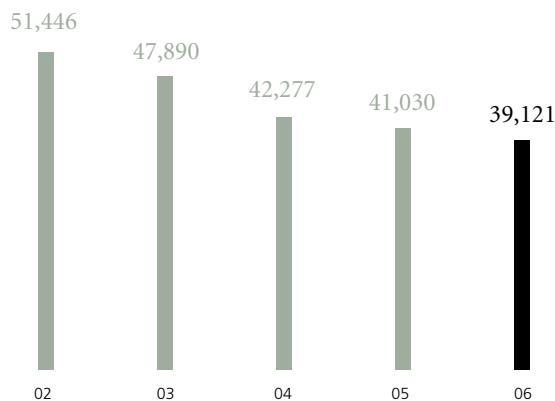
The role of human activity in greenhouse gas emissions and climate change has gained worldwide attention. Raytheon has long recognized the connection between energy and the environment, and has had a strong energy conservation program since the 1970s. More than 90 percent of the greenhouse gas (GHG) emissions attributable to the company are from energy consumption, primarily from purchasing electricity from third-party power plants. Some highlights of our energy initiatives and results are as follows:

**ENERGY STAR® Partner:** Since 1999, Raytheon has been an ENERGY STAR Partner, committed to improving energy conservation performance under this joint program of the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Energy.

**Climate Leaders Program:** In 2002, Raytheon joined EPA's Climate Leaders program as one of its charter member companies. Climate Leaders is a voluntary industry/government initiative that requires participating companies to develop comprehensive, long-term GHG reduction strategies.

**Greenhouse Gas Emissions Reduction Goal:** Raytheon set an aggressive goal to reduce GHG emissions by 33 percent from 2002 to 2009, normalized by revenue. By the end of 2006, we achieved a 24 percent reduction toward this goal. Since 2002, we have eliminated cumulatively 155,000 metric tons of carbon dioxide equivalent GHG emissions.

### Greenhouse Gas Emissions: Metric Tons of CO<sub>2</sub> Equivalents/\$B Sales



# 24%

Raytheon has reduced greenhouse gas emissions by 24 percent since 2002, normalized by revenue.



**Electricity Reduction Goal:** Recognizing the growing need to conserve energy, we set a related challenge of reducing electricity consumption by 15 percent from 2005 to 2007, adjusted for business growth. By the end of 2006, we achieved an 8 percent reduction toward this goal, saving \$9 million in costs, and 80 million kilowatt hours of electricity — enough energy to provide power to 8,000 homes for a year.

**Energy Champions:** Our energy conservation results are driven by the leadership of our Enterprise Energy team and more than 900 Energy Champion volunteers. Energy Champions have the passion and drive to conserve energy through their own initiatives and by influencing peers in the workplace to do the same.

**Green Buildings:** The Leadership in Energy and Environmental Design (LEED®) Green Building Rating System™ is the nationally accepted benchmark for the design, construction and operation of high-performance green buildings. We expect our newly designed and constructed Huntsville, Ala., building to be certified as a new LEED building. In 2004, one of our Marlborough, Mass., buildings was certified as a new LEED-green building.

**Renewable Energy:** We are studying the feasibility of wind turbines for our Portsmouth, R.I. location. We also have plans to construct a pilot photovoltaic (solar electricity) system on the roof of our building in Andover, Mass. These two examples of sustainable, renewable energy demonstrate our broad commitment to further reduce GHG emissions and our dependency on electricity generated at power plants.

# \$9M

Raytheon saved \$9 million in electricity costs in 2006.

# 80M kWh

Raytheon saved approximately 80 million kilowatt hours of electricity in 2006.



#### Raytheon Named ENERGY STAR Partner Of The Year

Raytheon was named a 2007 ENERGY STAR Partner of the Year by the U.S. Environmental Protection Agency for outstanding energy management practices. The company's energy program has driven significant reductions in greenhouse gas emissions.

Dr. Taylor W. Lawrence, Raytheon vice president of Engineering, Technology and Mission Assurance, accepted the ENERGY STAR Partner of the Year award on behalf of the company at a formal ceremony in Washington, D.C., on March 21, 2007.



Photo (top): Raytheon employees in attendance at the ENERGY STAR Partner of the Year awards ceremony.



## Supporting Our Communities

To deliver on Raytheon's stewardship commitments, we work actively with our communities, colleges and universities, customers, suppliers and other stakeholders. Our community relations and charitable giving program focuses on two issues of long-term national importance: math and science education, and natural disaster recovery. In addition, we provide outreach to organizations in support of our men and women in uniform.

**Math and Science Education.** With our major educational initiative, MathMovesU™, we hope to make a difference in the lives of young students, showing them that math and science can lead to an exciting and rewarding future.

**Disaster Relief.** Following the significant natural disasters of recent years, including the Southeast Asian tsunami and Hurricanes Katrina and Rita, Raytheon has responded with a robust set of donations and commitments.

**Support for the Armed Forces.** We are fully committed to continuing our support for active duty troops and their families in all branches of the military.

### Math and Science Education

**MathMovesU:** As a company of scientists, engineers and mathematicians, we have a special responsibility to nurture innovation and discovery in future generations. Launched in November 2005, Raytheon's MathMovesU program was developed to combat a growing shortfall in math education in the United States. Since its launch, MathMovesU has awarded more than \$1 million in MathMovesU grants and scholarships, created a website that has attracted more than 300,000 visitors, and raised awareness that math can lead to exciting careers. An improved website, featuring new celebrities and more interactive content, will be launched for the 2007 "Back to School" season — and MathMovesU messages will be spread through the Web, advertising, events and promotional activities.



**FIRST Robotics Scholarship:** FIRST Robotics is a national competition designed to inspire high school students to become engineers by giving them real-world "engineering" experience. Raytheon's businesses sponsor local teams of students who work with professional engineers to build a robot that is then entered into state, regional and national competitions. In support of the program, Raytheon offers scholarships to help FIRST Robotics team members continue their education in college as math, science or technology majors.

**Matching Gifts for Education:** The Matching Gifts program encourages Raytheon employees to support education with their personal contributions, which Raytheon then matches up to a set maximum per year. Employee contributions help local schools, colleges and universities ensure that today's students will be better prepared to succeed in the future. Employees may donate directly to these charities or give through payroll deduction.

**MATHCOUNTS®:** This national math enrichment, coaching and competition program promotes middle school mathematics achievement through grassroots involvement in every U.S. state and territory. In existence for more than 22 years, MATHCOUNTS is one of the most successful education partnerships involving volunteers, educators, industry sponsors and students. Raytheon supports MATHCOUNTS through a matching gifts program, and in 2006 we agreed to be the national sponsor of MATHCOUNTS for three years, commencing in 2009.

### Disaster Relief

**American Red Cross Commitments:** Raytheon has committed \$1 million over five years to the American Red Cross as part of its Annual Disaster Giving Program (ADGP). Membership in the ADGP helps secure a reliable funding base for disaster relief services, so the American Red Cross can focus on responding immediately to the needs of individuals and families affected by disaster.

**Raytheon Employee Disaster Relief Fund:** In addition to general disaster relief, we provide specific assistance to alleviate hardships faced by employees as a result of catastrophic events.

### Support for the Armed Forces

**Fund in Support of Our Troops:** The Fund in Support of Our Troops is a giving initiative co-funded by Raytheon and our employees. Grants are disbursed from the fund to help meet the needs of American troops in all military branches and their families. In 2006, Raytheon's Fund in Support of Our Troops added the United Service Organizations and the Veterans of Foreign Wars Foundation to its list of grant recipients. The list now includes:

- Air Force Aid Society
- Army Emergency Relief Fund
- Coast Guard Mutual Assistance Organization
- Navy-Marine Corps Relief Society
- Special Operations Warrior Foundation
- United Service Organizations
- Veterans of Foreign Wars Foundation

### Other Initiatives to Support Service Members

**and Their Families:** Our Raytheon culture has enormous respect for military service. A number of our employees are reservists on active duty, and many others are veterans, as were generations of Raytheon employees before them. Our employees enthusiastically support initiatives that acknowledge the sacrifices made by our men and women in uniform. In 2006, employees in California and Texas collaborated on the "Toy Express," a holiday toy distribution program to benefit the children of deployed servicemen and women. As a result, hundreds of toys and bicycles were distributed to service members' children, and many more were donated to nonprofit organizations ranging from the Airmen and Family Readiness Center at the Los Angeles Air Force Base to the U.S. Marine Corps Reserves Toys for Tots campaign.



## Improving Products and Processes

To integrate stewardship into every aspect of our business, it is not enough to have world-class programs targeting governance, compliance, ethics, workplace safety, employee wellness, inclusion and environmental responsibility. We must also embrace the values of stewardship in our fundamental approach to product design and manufacturing processes. Raytheon's engineering culture is not only strongly aligned with these values, but exceptionally well-equipped to support them. From Engineering, Technology and Research to Operations and Performance Excellence, we work aggressively at every

organizational level to improve our products and processes. Senior management is directly charged with implementing Raytheon's stewardship programs. Sophisticated and time-tested internal processes such as Raytheon Six Sigma™ drive actions throughout the organization and in relation to suppliers and customers. The result is a continual improvement in total product performance, including environmental performance and the other aspects of stewardship responsibility.

## Delivering the Promise of NoDoubt™ Performance

Mission Assurance is at the heart of everything we do at Raytheon. By taking an integrated approach across the company, we have brought our Mission Assurance promise of NoDoubt performance to unprecedented levels. Doing so requires a continuous commitment from everyone across the enterprise — from employees on the factory floor to senior leaders of every business. We support this commitment with a broad range of proprietary tools and internal and external metrics. Among them:

### Capability Maturity Model® Integration (CMMI®):

A set of standards established by the Software Engineering Institute to help organizations measure the effectiveness of internal processes. Our engineering community uses CMMI to enhance efficiency, reduce variability and ensure the same excellent standards of quality from project to project and location to location. Of the 34 engaged Raytheon sites, all are at a CMMI Level 3 rating, with a future goal set to reach CMMI Level 5 across the entire engineering function.



Raytheon Six Sigma (R6σ®): An integrated, knowledge-based system that serves as the vehicle to increase productivity, grow the business and build a company culture that embraces all of these goals. R6σ is directly aligned with the strategic

goals of our company to impact areas critical to our success.

### Engineering Tomorrow's Solutions

Our ability to grow depends on technological innovation. Our disciplined processes ensure a continuing stream of new and improved solutions — enabling us to meet our customers' expectations. Recent examples include:

– *Active Protection System*, a “mini-missile defense system” that is capable of defeating in-flight rocket-propelled grenades in the blink of an eye to safeguard armored vehicles and our armed forces. It is part of the U.S. Army’s Future Combat Systems.

– *Advanced Spectroscopic Portal*, a next-generation, point-of-entry system that performs high-volume spectroscopic cargo inspections to detect and forestall nuclear threats. The first four portals were delivered to the U.S. Department of Homeland Security in November 2006.

– *National Data Exchange*, now being developed by Raytheon for the U.S. Federal Bureau of Investigation (FBI), will allow more than 18,000 state and local law enforcement agencies to exchange crime report information with the FBI and one another. This breakthrough system promises to overcome long-standing barriers to the rapid apprehension of criminals or terrorists operating in multiple jurisdictions.

– *Synthetic Aperture LADAR for Tactical Imaging*, an airborne coherent Laser Detection and Ranging (LADAR) laser radar imaging system that produces high-resolution 3-D images, enhancing situational awareness and target identification. We produced the world’s first optical wavelength synthetic aperture images from an airborne platform for the Defense Advanced Research Projects Agency in 2006.

– *U.S. Visitor and Immigrant Status Indicator Technology*, a joint undertaking by Raytheon, Accenture and others to design and deploy a system for the U.S. Department of Homeland Security that will track visitors to the United States. This project incorporates state-of-the-art biometrics and scanning technologies and will be deployed at our nation’s ports-of-entry — land, sea and air.

### Taking the Initiative in Lead Reduction

The European Union’s “Restriction of Use of Certain Hazardous Substances” (RoHS) directive went into effect in 2006. It requires many products ranging from consumer appliances to electronic equipment be free of hazardous materials, most notably lead. While this directive is limited to Europe and does not apply to the defense industry, Raytheon is taking the initiative to provide lead-free products. By investing in alternate alloys and new lead-free processes, we are proving that we can reduce our dependence on hazardous materials without compromising product performance.

### Reinventing the Metal Coating Process

We have also developed environmentally friendly substitutes for traditional corrosion-resistant coating technologies requiring volatile organic compounds and chromium. By replacing previous wet coating systems with an equally effective suite of powder coatings, we have removed four tons of hexavalent chromium compounds, 30 tons of volatile organic compounds and 30 tons of hazardous waste from the process stream over the span of five years. At the same time, we have reduced the cost of coatings for customers by up to 70 percent.

## 2006 Awards and Highlights

Raytheon selected as the 4th "Most Admired" company in the aerospace and defense industry by *Fortune* magazine.

Raytheon named one of the top 10 "Best Places to Launch a Career" by *BusinessWeek*.

Raytheon ranked a "Top-Performing Company" by *Aviation Week & Space Technology*.

Raytheon recognized as one of the top space industry companies by *Space News*.



Photo (top): Raytheon is honored by the U.S. EPA Acting Assistant Administrator Bill Wehrum, center, for the company's greenhouse gas reduction goal. Raytheon employees Steve Fugarazzo and Nancy Kitsos accepted this recognition on behalf of Raytheon.

Photo (bottom): Former Secretary of the Army Francis J. Harvey (left) and Raytheon Senior Vice President of Human Resources Keith Peden sign formal agreements making Raytheon the 200th member of the Army's Partnership for Youth Success program. Photo courtesy of U.S. Army.

### Diversity

DiversityBusiness.com ranked Raytheon 12th on its sixth annual list of the top 50 national organizations for multicultural business opportunities.

For the second consecutive year, John Harris, vice president of Contracts and Supply Chain for Raytheon, was named one of the "Top 100 Most Influential Blacks in Corporate America" by *Black Professionals*.

Raytheon Company Chief Information Officer, Rebecca Rhoads, was selected as a top executive by *Profiles in Diversity Journal*.

Wyllstyne Hill, vice president and chief information officer of Raytheon Missile Systems, was recognized at the Black Engineer of the Year Awards conference for career achievement.

### Energy



Raytheon was recognized by the U.S. EPA Climate Leaders program for setting a goal to reduce greenhouse gas emissions by 33 percent between 2002 and 2009, normalized by revenue.

Raytheon received the 2006 George Graves Award of Excellence for facility management achievement from the International Facilities Management Association. The award recognizes our Energy Conservation for a Competitive Advantage program.

Raytheon received recognition from the Northeast Energy Efficiency Partnerships for "Leadership in Business Commitment to Energy Efficiency."

## Environment



Raytheon's Northeast sites received the U.S. EPA's WasteWise Honorable Mention Award for implementing efficient and cost-effective waste prevention and recycling approaches.

Raytheon Polar Services received the 2006 Colorado Alliance for Environmental Education Award for its environmental education and outreach to more than 3,000 U.S. Antarctic Program participants annually.

Raytheon's facilities in the North Texas area were awarded the Marilyn May Recycling Award from the Texas Corporate Recycling Alliance for their continued industry leadership and commitment to recycling and involvement in the community.

The New Mexico Environmental Department recognized Raytheon's Farmington facility with a Green Zia Environmental Award for commitment to environmental excellence and long-term environmental and economic sustainability.

## Information Technology

*Computerworld* recognized Raytheon in its "100 Best Places to Work in IT 2006" special issue.

Raytheon was ranked in the top 50 of the *InformationWeek* 500 list for 2006.

## Safety



Raytheon won three Safety Leadership Awards from the Aerospace Industries Association for having the lowest injury rate without a fatality. The three categories were Aircraft Manufacturing, Missiles and Space Vehicles, and Aerospace Components.

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Seven Raytheon business centers in Massachusetts and Rhode Island received safety awards from the Massachusetts Safety Council for their low injury rate and exceptional safety programs, including the Integrated Air Defense Center in Andover, Mass., which received the President's Award for having the lowest "Lost Day Incident Rate" for a large facility.

Raytheon's Mission and Systems Solutions program site in Houston received the "Star of Excellence" award from the Occupational Safety and Health Administration (OSHA) for the location's outstanding safety record.



Raytheon's Aurora, Colo., site achieved OSHA's prestigious Star Site status in the OSHA Voluntary Protection Program.

Raytheon's site in Louisville, Ky., was awarded a Governor's Award for outstanding safety and health performance.

## Supply Chain Diversity

Raytheon was named one of four recipients of the U.S. Small Business Administration's Dwight D. Eisenhower Award for Excellence. The award was presented in the manufacturing category for excellence in developing and providing procurement opportunities for small businesses.

*This list is a sampling of the many formal recognitions and awards Raytheon received in 2006.*

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**Raytheon**

*Customer Success Is Our Mission*