

Dear Fellow Shareholders,

“Our results demonstrate the success we have had in driving operational improvements throughout the business and executing on our strategy.”

I am pleased to report that 2007 was a very successful year for the company. We ended the year with both record bookings and backlog. We grew sales by 8 percent, while increasing operating income by 20 percent. Our results demonstrate the success we have had in driving operational improvements throughout the business and executing on our strategy.

In 2007, we increased the dividend for the third year in a row and announced a \$2.0 billion share repurchase plan, our largest to date. During the year, the company repurchased 28.7 million shares for \$1.6 billion and retired over \$1.7 billion of long-term debt.

It was also a year in which we reshaped our portfolio to focus on our core government and defense business. We completed the sale of Raytheon Aircraft and our Flight Options business—so that we are now fully focused on leveraging our world-class technologies within our core business to serve both our domestic and international customers.

We also made exciting acquisitions in 2007 with a goal of enhancing Raytheon’s technological capabilities in attractive, growing markets. We acquired Oakley Networks, Inc., which strengthens our capabilities in information security and supports our strategic focus on information assurance and information operations; and we also acquired the robotics technologies and capabilities of Sarcos, which is expert at advanced micro-electronics and actuators.

A Year of Good Wins The company’s customer focus on Performance, Relationships and Solutions—including our process discipline and Raytheon Six Sigma™ efforts—continues to deliver outstanding results.

This was evident in a number of exciting program awards in 2007, including e-Borders, a contract valued at \$1.4 billion with the U.K. Home Office to develop and implement the U.K.’s advanced border management program; mission systems integration for the Royal Australian Navy’s Hobart Class Air Warfare Destroyers and for the first U.S. Navy Zumwalt Class Destroyers, with 2007 combined bookings of \$2.6 billion, placing Raytheon at the forefront of the most advanced surface-ship programs in the world; the U.S. Navy’s Multiband Terminal, which has a combined potential value over its lifetime in excess of \$1.0 billion for development and production; the Warfighter FOCUS program, an indefinite-delivery, indefinite-quantity (IDIQ) award with a potential lifetime value of more than \$11.0 billion that is a landmark consolidation of the U.S. Army’s live, virtual and constructive training operations and support systems worldwide; a U.S. Army common sensor payload for manned and unmanned aircraft, an IDIQ award that starts out small, but could grow to more than \$1.0 billion in potential sales; the F-15E radar modernization program; a “down-select” for one of the U.S. Air Force contracts to develop one of the new system designs for the next-generation Global Positioning System Control Segment; and selection at year-end to develop the U.S. Army’s Mid-Range Munition for the Future Combat Systems’ Mounted Combat System, positioning the company as the leader in the development of affordable precision-guided projectiles.

Exciting Technologies The company is also working on exciting technologies, including information assurance/information security solutions to protect networks from advanced attacks; a “see-through-the-wall,” three-dimensional imaging capability to provide soldiers with situational awareness inside a



building; an Advanced Spectroscopic Portal screening system for identifying and interdicting the illegal entry of nuclear devices and materials into the U.S.; and a new air-launched missile defense system, a key element of which was successfully tested in a boost-phase intercept.

A Year of Recognition It was also a year of recognition in a number of areas. We received the Secretary of Labor's Opportunity Award, the government's highest award for outstanding and innovative workplace diversity efforts by federal contractors. We were selected as a 2007 ENERGY STAR® Partner of the Year by the U.S. Environmental Protection Agency (EPA) for leadership and achievements in energy management and conservation. And we were awarded a 100 percent score, for the third consecutive year, on the Corporate Equality Index from the Human Rights Campaign Foundation. Raytheon was the first aerospace and defense company to achieve a 100 percent score.

In addition, our Integrated Defense Systems' Integrated Air Defense Center in Andover, Massachusetts, and our Missile Systems' facility in Camden, Arkansas, received North American Shingo Prizes for Operational Excellence for 2008, and our Missile Systems–Louisville facility received a North American award in 2007. Our Integrated Defense Systems' Maritime Mission Center in Portsmouth, Rhode Island, was awarded a Northeast Shingo Prize in 2007.

The company was also pleased to receive a ranking as one of the "Rising 10 Homeland Security Companies" by *HSToday*, as well as a ranking among the 50 "Best Places to Launch a Career" by *BusinessWeek*. In December 2007, Raytheon was awarded the "Best Managed Company" designation in America's aerospace and defense industry by *Forbes* in its latest annual survey of the 400 Best Big Companies in America.

Strategy Going Forward The company's program awards and recognition in 2007 highlight the execution of our strategy, our technology, our systems engineering expertise and our world-class talent. I'd like to thank the 72,000 members of the Raytheon team for a job well done.

Our strategy going forward is to:

- Focus on key strategic pursuits, Technology and Mission Assurance to protect and grow our position in our four core defense markets: Sensing, Effects, C3I (Command, Control, Communications and Intelligence) and Mission Support.
- Leverage our domain knowledge in these core defense markets, as well as in Mission Systems Integration, Homeland Security and Information Assurance/Information Operations.
- Expand our international business by increasing defense sales and seeking adjacent opportunities.
- Be a Customer Focused company based on Performance, Relationships and Solutions.

Securing the Future of Our Technical Talent Pipeline As a technology company, Raytheon believes it is of strategic importance to secure the technical talent pipeline for the future. Toward this end, the company is pursuing a multi-pronged approach to support math and science education.

One pillar of this effort is MathMovesU® (MMU), a Raytheon initiative to encourage middle school students to develop and sustain an interest in math and science. Our MMU website has drawn more than half a million visitors, and our community outreach effort has engaged more than 25,000 students and more than 3,000 Raytheon volunteers.

We support the Aerospace Industries Association's Workforce Initiative to bring industry representatives into the curriculum development process and the FIRST Robotics program through team



sponsorships and employee volunteerism. We work with the Business–Higher Education Forum, where I am honored to co-chair an initiative on Securing America’s Leadership in Science, Technology, Engineering and Mathematics (STEM). And we continue to support both the Raytheon Scholars program, which provides scholarship grants to the children of employees, and our Matching Gifts for Education program.

Energy Conservation At Raytheon, we also believe we have a responsibility to conserve natural resources and protect the environment for future generations. Our ENERGY STAR® Partner of the Year selection by the EPA in 2007 was the second such designation in five years for outstanding energy management practices. Since 2002, the company has reduced its greenhouse gas emissions by approximately 28 percent adjusted for sales and inflation, an achievement that includes a significant reduction in energy consumption. In 2007, we curbed electricity consumption by approximately 10 percent adjusted for business growth, enough electricity to power some 10,000 homes for a year.

“The Raytheon brand is important to all of our stakeholders. We want our company ‘to be the most admired defense and aerospace systems supplier through world-class people and technology.’ That is our vision. The 72,000 people of Raytheon pledge to you that we will pursue this vision, guided by our values, so that we may continue to earn your confidence in us.”

Customer Success Is Our Mission Our team knows that the work we do is important. People depend on us to meet the needs of our servicemen and women, to help provide for homeland security, to support safe and efficient air-traffic management, and to provide other key solutions.

When our servicemen and women see the Raytheon name, we want them to have “no doubt” about our systems and services doing what they are supposed to do. This is something we feel deeply. We identify strongly with our men and women in uniform—many Raytheon employees are veterans themselves; some are on active duty now—and we are very grateful for their service.

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In my 36th year with Raytheon, always a proud member of the Raytheon team,

A handwritten signature in black ink, appearing to read 'William H. Swanson'.

William H. Swanson
Chairman and Chief Executive Officer

March 2008