

Dear Fellow Shareholders,

I am pleased to report that 2008 was another strong year for our company. We successfully executed our strategy and had strong operating results, reflected in a record year-end backlog of \$38.9 billion, nine percent sales growth and 23 percent growth in adjusted earnings per share from continuing operations. We had excellent operating cash flow of \$2 billion for the year, and we continued to improve Return on Invested Capital. All of our businesses performed well.

The Raytheon team has worked hard these last several years to intensify our focus on the customer, to reshape and focus our portfolio on our core government and defense business, to become extremely process disciplined, and to perform strongly on our programs and stay on budget. This last point has been of utmost importance to us.

Balance Sheet Strength

We have also worked hard to strengthen the balance sheet. In September 2008, our senior debt rating was upgraded by both Fitch and Standard & Poor's to A-. We ended the year in a strong cash position, with our cash on hand nearly equal to our debt outstanding, which means our net-debt was near zero.

The result of our solid balance sheet is that we have been able to both invest in our businesses' future and to return cash to shareholders through increased dividends and share repurchases. Clearly, it was a tumultuous year in financial markets and in the economy, and none of us are immune to these forces. At Raytheon, we did see an impact from market performance on our pension plan investments. We made \$660 million in discretionary cash contributions to the plans in 2008 and \$900 million in 2007. While the near-term outlook for the financial markets and the economy continues to be uncertain, we remain committed to continue to meet our pension obligations going forward.

International Success

As we move forward with our strategic plan for growth, one of the key drivers of our growth strategy is our focus on expanding international sales, and in 2008 "international" contributed 28 percent of total bookings. The success of the company's international strategy is reflected in the resurgence of our Patriot program, highlighted by an order in 2008 of up to \$3.3 billion for the Patriot air and missile defense system for the United Arab Emirates.

This follows on other important international programs which, while previously awarded, achieved significant program milestones in 2008, including in the United Kingdom the e-Borders program for the U.K. Border Agency and the Airborne Stand-Off Radar (ASTOR) system for the U.K. Ministry of Defence; and in Australia mission systems integration and support for the Australian Navy's Hobart Class Air Warfare Destroyer. I am also pleased to report that the Royal Moroccan Air Force has now selected Raytheon's digital electronic warfare suite to equip its F-16s, a strategic win with a core technology internationally.

U.S. Programs

With respect to U.S. programs, I want to share with you a few of the many examples that reflect the strength of our team and our focus on performance, relationships and solutions that drive customer success.

The first example has a long name and an important objective. In 2008, we were awarded the Air Traffic Control Optimum Training Solution (ATCOTS) contract to provide training support for Federal Aviation Administration air traffic controllers. As you will read in this report, ATCOTS is a building block in the transition from today's ground-based air traffic control environment to future satellite-based systems.

The second example is our selection for the design and development phase of the Joint Precision Approach and Landing System (JPALS) for the U.S. Navy. JPALS has a big mission: to provide pilots with an advanced pinpoint landing capability on aircraft carriers.



Vision



Strategy



Goals



Values

The third example captured worldwide attention in February 2008 as Raytheon technology played a pivotal role in the successful intercept of a non-functioning satellite. The company's Standard Missile-3 intercepted the target 153 miles over the Pacific Ocean. The Sea-Based X-band radar, designed and built by Raytheon, tracked the satellite prior to the missile engagement and performed the hit assessment afterward. Throughout the process, Raytheon engineers worked closely with our customers and teammates to ensure mission success. The SM-3 satellite intercept team was recently awarded *Aviation Week's* 52nd Annual Laureate Award, which recognizes outstanding achievement, strategy, leadership and heroism in aviation, aerospace and defense.

Prepared To Embrace The Future

At the beginning of this letter, I summarized the scope of our progress these last several years in focusing on customer success, reshaping our portfolio, improving process discipline, and strengthening the balance sheet.

This year's Annual Report puts the spotlight on another key contributor to the company's success: *innovation*. Raytheon is a technology company, and we are very proud of our team's wonderful solutions... from Universal Control Systems that enhance performance in piloting unmanned aerial systems... to our role in two of TIME Magazine's 50 Best Inventions of 2008: our Radio Frequency components for NASA's soon-to-be launched Lunar Reconnaissance Orbiter and our Active Protection System that is being developed for the U.S. Army. In the pages that follow, you will read about some of the many, many technology solutions developed by our world-class engineers and scientists.

Our engineers and scientists inspire us. They show us what can be accomplished when we look at the world with fresh eyes, collaborate, welcome new ideas and try to do things differently. We feel so strongly about this mindset that we are redoubling our efforts on innovation at Raytheon. That is, we want there to be an innovative approach to meeting needs that extends beyond our engineers and scientists to include all members of our team—whether they are developing a more efficient way to close the financial quarter, rolling out a new ethics education program to reinforce our core values, strengthening our leadership and

development programs, or finding new ways to help secure the science, technology, engineering and mathematics (STEM) pipeline for the future.

Science, Technology, Engineering and Mathematics

This is a tall order, but I believe we have made a strong start. Our team's work in support of STEM education is a good example of innovation broadly defined and executed. We know STEM education is important to Raytheon because we are, after all, a technology company that must always be able to retain and attract STEM talent. We also know that future generations, and society, will need these same skills to prosper. In the long run, it is the single best investment we can make for our country.

Given the importance of the STEM education challenge, the company's approach has been innovative and multifaceted.

Our MathMovesU® program, developed by Raytheon in 2005, is reaching out to middle school students on their own terms to help them make the connection between studying math and science now and having exciting careers later. Since its inception, the program has touched the lives of more than 700,000 students, teachers and parents through interactive learning programs, contests, live events, scholarships, tutoring programs and more.

A core component of MathMovesU is an exciting new sponsorship at Epcot® at the Walt Disney World® Resort called the *Sum of All Thrills*™. This interactive exhibit is scheduled to be unveiled later this year at the INNOVENTIONS pavilion. The exhibit will offer children (and the child in *all* of us) an exciting experience to help instill a passion for math and engineering principles. It is an experience one will not soon forget.

Raytheon has teamed with the New England Patriots to unveil another exciting educational experience, The Hall at Patriot Place presented by Raytheon. It is our hope that tens of thousands of students will experience the math and science education program we have developed for school groups visiting one of the most exciting venues in the country.

“Raytheon, then, moves forward drawing on deep experience, with a leadership team that is seasoned and ready, with solid values and a strong, diverse portfolio built on core capabilities that support the needs of our customers. Our work these last several years has helped prepare us to meet the challenges of our time and to capitalize on the opportunities that await us.”



The company is pleased, as well, to be title sponsor of the 2009-2011 MATHCOUNTS® National Competition, another innovative approach to promote excitement in math among young students.

Last but not least, the company has developed a unique modeling tool using system dynamics techniques to represent how students move through the U.S. STEM educational system. Raytheon and the Business-Higher Education Forum, of which I am honored to be vice-chair, are now working with others to form a community of researchers and modelers to expand the effort. We believe we have demonstrated that the modeling of the U.S. education system is an effective method for examining educational policy changes, and this is quite encouraging.

While the world is wrestling with economic challenges at the moment, many business leaders believe, as I do, that we cannot afford to turn away from other strategic imperatives, like STEM education, that will be fundamental to the health of our companies and our society in the years to come. This is why we have declared 2009 to be the “Year of Math in Action.”

By expanding our STEM engagement and visibility in 2009, we hope to elevate the discussion and, more importantly, to inspire the next generation of scientists and engineers.

Corporate Responsibility

Our work in the STEM area is consistent with a sense of corporate responsibility that has guided our company for many years. Raytheon was founded in 1922; so our mission extends beyond the scope of a generation or two. It is an ongoing commitment to the success of our external and internal communities.

As you will read in this Annual Report, the company’s efforts on behalf of our employees and communities received wide recognition in 2008, ranging from designation as one of America’s Safest Companies by *EHS Today*® Magazine; to the Environmental Protection Agency’s/ Department of Energy’s ENERGY STAR® Sustained

Excellence Award; to a 100 percent score for the fourth year in a row on the Corporate Equality Index from the Human Rights Campaign Foundation®.

Ultimately, then, we are dedicated to supporting the success of our customers around the world, our shareholders, our employees, our communities and our other stakeholders. We are well aware that servicemen and women around the world depend on the dedication and expertise of the Raytheon team. On behalf of Raytheon’s 73,000 employees, I would like to offer our deepest thanks to these servicemen and women, and their families, for their service and sacrifice. We remain dedicated to their safety and success.

A Strong, Diverse Portfolio to Meet Global Needs

Raytheon, then, moves forward drawing on deep experience, with a leadership team that is seasoned and ready, with solid values and a strong, diverse portfolio built on core capabilities that support the needs of our customers. Our work these last several years has helped prepare us to meet the challenges of our time and to capitalize on the opportunities that await us. In essence, we’ve been training for this moment for a long time and, as a result, we stand ready to embrace the future that lies ahead with enthusiasm and a deep-rooted belief in our ability to succeed, together.

We approach this future with a shared vision: “to be the most admired defense and aerospace systems supplier through world-class people and technology.” I want you to know that you have our commitment we will continue to work our hardest to maintain and grow your support.

A proud member of the Raytheon team for 37 years,

A handwritten signature in black ink, appearing to read "Will Swanson".

William H. Swanson
Chairman and Chief Executive Officer

March 2009