

# Fourth Quarter 2010 Conference Call

January 27, 2011

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# Forward-Looking Statements

**This presentation contains forward-looking statements, including information regarding the Company's financial outlook, future plans, objectives, business prospects and anticipated financial performance. These forward-looking statements are not statements of historical facts and represent only the Company's current expectations regarding such matters. These statements inherently involve a wide range of known and unknown risks and uncertainties. The Company's actual actions and results could differ materially from what is expressed or implied by these statements. Specific factors that could cause such a difference include, but are not limited to: the Company's dependence on the U.S. Government for a significant portion of its business and the risks associated with U.S. Government sales, including changes or shifts in defense spending, uncertain funding of programs, potential termination of contracts, and difficulties in contract performance; the resolution of program terminations; the ability to procure new contracts; the risks of conducting business in foreign countries; the ability to comply with extensive governmental regulation, including import and export policies, the Foreign Corrupt Practices Act, the International Traffic in Arms Regulations, and procurement and other regulations; the impact of competition; the ability to develop products and technologies; the impact of changes in the financial markets and global economic conditions; the risk that actual pension returns, discount rates or other actuarial assumptions are significantly different than the Company's assumptions; the risk of cost overruns, particularly for the Company's fixed-price contracts; dependence on component availability, subcontractor performance and key suppliers; risks of a negative government audit; the use of accounting estimates in the Company's financial statements; risks associated with acquisitions, dispositions, joint ventures and other business arrangements; risks of an impairment of goodwill or other intangible assets; the outcome of contingencies and litigation matters, including government investigations; the ability to recruit and retain qualified personnel; the impact of potential security threats and other disruptions; and other factors as may be detailed from time to time in the Company's public announcements and Securities and Exchange Commission filings. The Company undertakes no obligation to make any revisions to the forward-looking statements contained in this presentation or to update them to reflect events or circumstances occurring after the date of this presentation, including any acquisitions, dispositions or other business arrangements that may be announced or closed after such date. This presentation also contains non-GAAP financial measures. A GAAP reconciliation and a discussion of the Company's use of these measures are included in this presentation.**

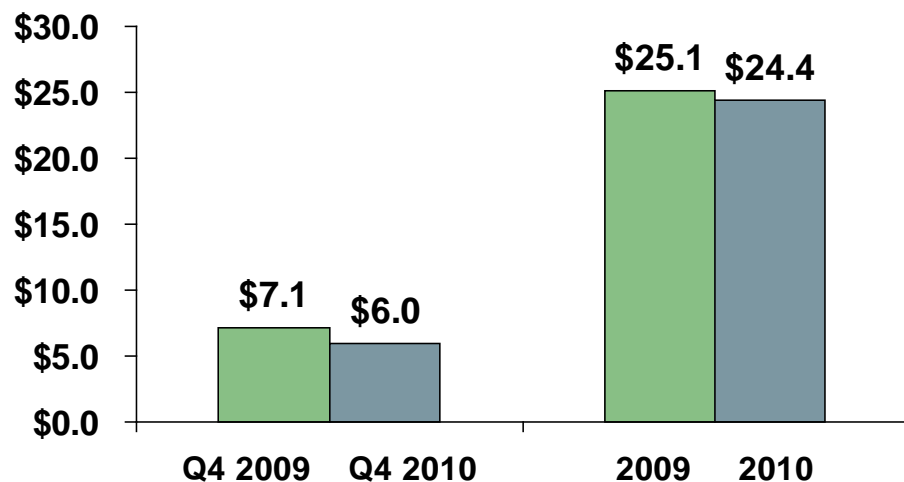
# Fourth Quarter and Full-Year 2010 Highlights

- Fourth quarter 2010 Adjusted EPS of \$1.57, up 20 percent; EPS from continuing operations was \$1.37<sup>(1)</sup>
- Fourth quarter operating cash flow from continuing operations of \$861 million after a \$750 million discretionary pension plan contribution
- Full-year 2010 Adjusted EPS of \$5.58, up 15 percent; full-year 2010 EPS from continuing operations was \$4.79<sup>(1)</sup>
- Full-year 2010 operating cash flow from continuing operations of \$1.9 billion after a \$750 million discretionary pension plan contribution
- Announced agreement to acquire Applied Signal Technology, Inc. and commencement of tender offer
- Provides Guidance for 2011

*(1) Adjusted EPS is EPS from continuing operations attributable to Raytheon Company common stockholders excluding the EPS impact of the FAS/CAS pension adjustment and, from time to time, certain other items. In addition to the FAS/CAS pension adjustment, Q4 2010 and 2009 Adjusted EPS exclude the impacts of early debt retirements in Q4 2010 and Q4 2009, and full-year 2010 and 2009 EPS exclude the impacts of the UK Border Agency program adjustment in Q2 2010, a favorable tax settlement in Q3 2010 and early debt retirements in Q4 2010 and Q4 2009. Adjusted EPS is a non-GAAP financial measure. See page 17 for a reconciliation of this measure and a discussion of why the Company is presenting this information.*

# Total Company Bookings and Backlog

**Bookings (\$B)**



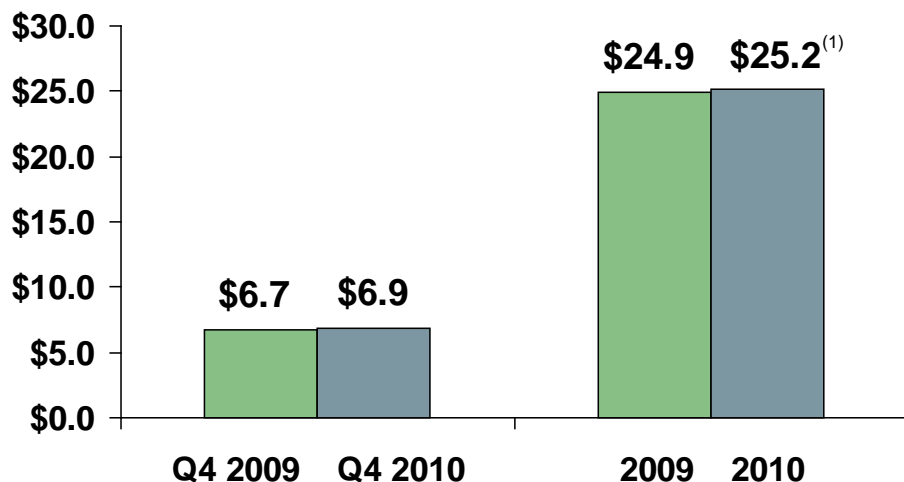
**Backlog (\$B)**



**Bookings and backlog affected by timing of domestic and international awards**

# Total Company Net Sales

**Net Sales (\$B)**



**Fourth Quarter Net Sales (\$M)**

|              | Q4 2009      | Q4 2010      | % Change  |
|--------------|--------------|--------------|-----------|
| IDS          | 1,541        | 1,463        | -5%       |
| IIS          | 803          | 820          | 2%        |
| MS           | 1,413        | 1,565        | 11%       |
| NCS          | 1,259        | 1,310        | 4%        |
| SAS          | 1,266        | 1,300        | 3%        |
| TS           | 888          | 964          | 9%        |
| Corp./Elims. | (503)        | (537)        | NM        |
| <b>Total</b> | <b>6,667</b> | <b>6,885</b> | <b>3%</b> |

**Full-Year Net Sales (\$M)**

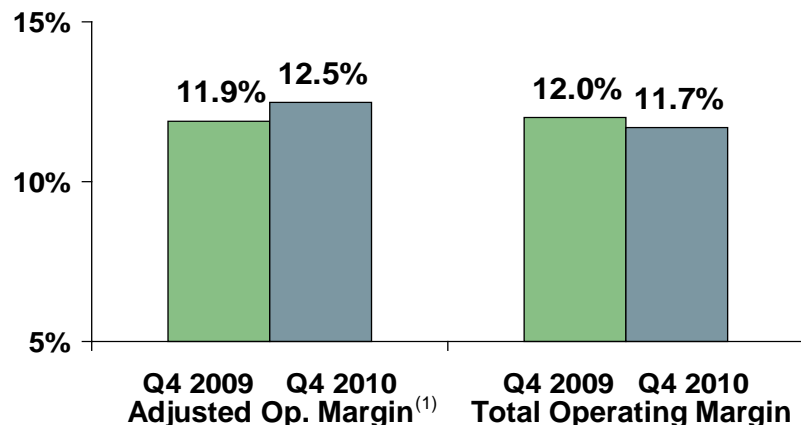
|                    | 2009          | 2010                        | % Change  |
|--------------------|---------------|-----------------------------|-----------|
| IDS                | 5,525         | 5,470                       | -1%       |
| IIS <sup>(1)</sup> | 3,204         | 2,757                       | -14%      |
| MS                 | 5,561         | 5,732                       | 3%        |
| NCS                | 4,822         | 4,918                       | 2%        |
| SAS                | 4,582         | 4,830                       | 5%        |
| TS                 | 3,161         | 3,472                       | 10%       |
| Corp./Elims.       | (1,974)       | (1,996)                     | NM        |
| <b>Total</b>       | <b>24,881</b> | <b>25,183<sup>(1)</sup></b> | <b>1%</b> |

<sup>(1)</sup> Full-year 2010 includes a \$316 million reduction to net sales due to the UK Border Agency program termination in the second quarter 2010.

**Fourth quarter sales increased by 3 percent**

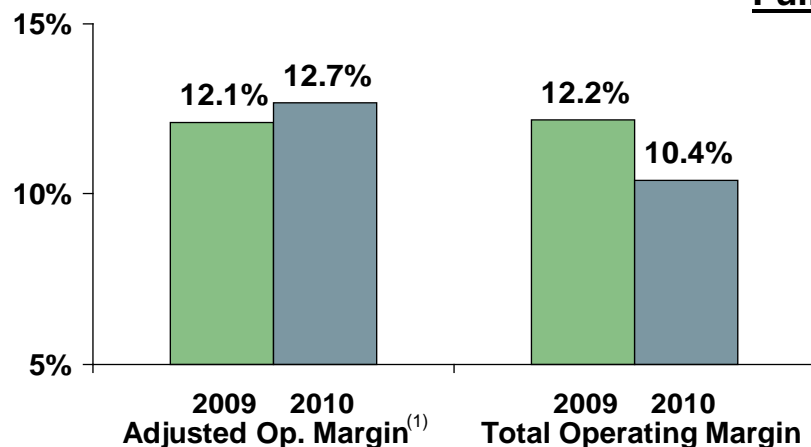
# Total Company Operating Margins

## Fourth Quarter (%)



|  | Q4 2009      | Q4 2010      | Net Change      |
|--|--------------|--------------|-----------------|
| IDS  | 16.2%        | 16.4%        | 20 bps          |
| IIS  | 8.0%         | 8.4%         | 40 bps          |
| MS   | 10.9%        | 10.9%        | 0 bps           |
| NCS  | 13.4%        | 15.1%        | 170 bps         |
| SAS  | 13.7%        | 12.7%        | (100) bps       |
| TS   | 6.5%         | 8.6%         | 210 bps         |
| FAS/CAS Pension Adjustment                     | \$6M         | -\$60M       | (\$66M)         |
| Corp and Elims                                 | -\$74M       | -\$61M       | \$13M           |
| <b>Total Operating Margin</b>                  | <b>12.0%</b> | <b>11.7%</b> | <b>(30) bps</b> |
| FAS/CAS Pension Adjustment                     | -0.1%        | 0.9%         | 100 bps         |
| <b>Adjusted Operating Margin<sup>(1)</sup></b> | <b>11.9%</b> | <b>12.5%</b> | <b>60 bps</b>   |

## Full-Year (%)

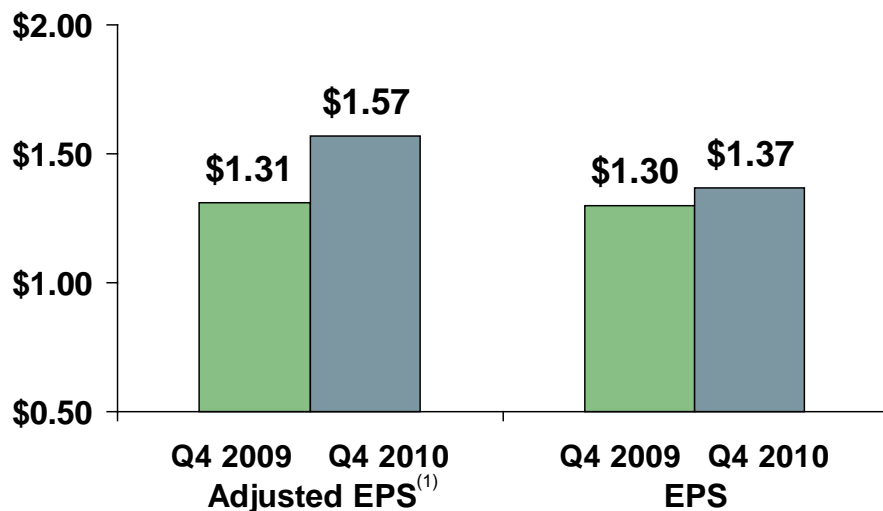


|  | 2009         | 2010         | Net Change       |
|--|--------------|--------------|------------------|
| IDS  | 15.5%        | 16.1%        | 60 bps           |
| IIS  | 8.1%         | -5.4%        | NM               |
| MS   | 10.9%        | 11.4%        | 50 bps           |
| NCS  | 14.0%        | 14.3%        | 30 bps           |
| SAS  | 14.1%        | 14.2%        | 10 bps           |
| TS   | 6.8%         | 8.6%         | 180 bps          |
| FAS/CAS Pension Adjustment                     | \$27M        | -\$230M      | (\$257M)         |
| Corp and Elims                                 | -\$243M      | -\$233M      | \$10M            |
| <b>Total Operating Margin</b>                  | <b>12.2%</b> | <b>10.4%</b> | <b>(180) bps</b> |
| UK Border Agency Program Adj.                  | -            | 1.4%         | 140 bps          |
| FAS/CAS Pension Adjustment                     | -0.1%        | 0.9%         | 100 bps          |
| <b>Adjusted Operating Margin<sup>(1)</sup></b> | <b>12.1%</b> | <b>12.7%</b> | <b>60 bps</b>    |

(1) See page 18 for a reconciliation of Adjusted Operating Margin to total operating margin and a discussion of why the Company is presenting this information. Numbers may not add due to rounding.

**Adjusted Operating Margin up 60 bps in Q4 & full-year**

# Earnings Per Share from Continuing Operations: Fourth Quarter



## Adjusted EPS (\$)<sup>(1)</sup>

|                            |               |
|----------------------------|---------------|
| <b>Fourth Quarter 2009</b> | <b>\$1.31</b> |
| Operational improvements   | 0.12          |
| Reduced share count        | 0.08          |
| Other items, net           | <u>0.06</u>   |
| <b>Fourth Quarter 2010</b> | <b>\$1.57</b> |

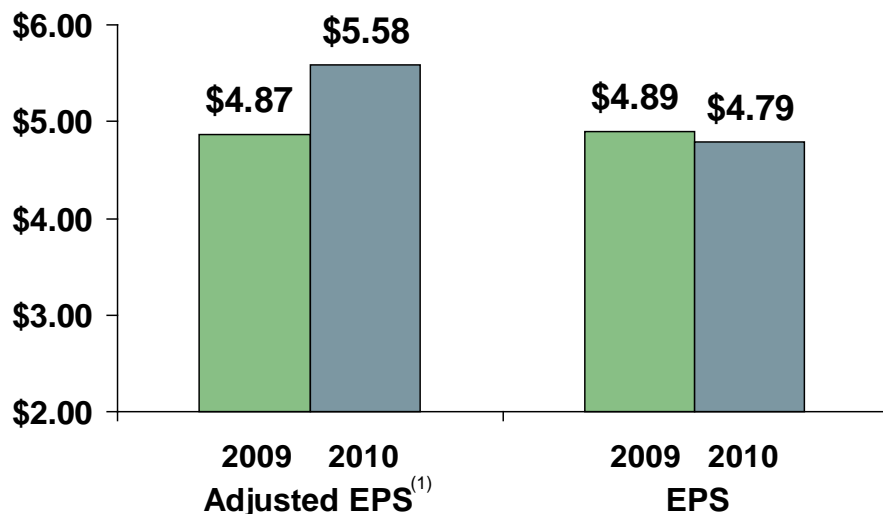
## EPS (\$)

|                                |               |
|--------------------------------|---------------|
| <b>Fourth Quarter 2009</b>     | <b>\$1.30</b> |
| Operational improvements       | 0.12          |
| Reduced share count            | 0.08          |
| Other items, net               | 0.06          |
| FAS/CAS pension adjustment     | (0.12)        |
| Q4 debt retirement impact, net | <u>(0.07)</u> |
| <b>Fourth Quarter 2010</b>     | <b>\$1.37</b> |

(1) See page 17 for a reconciliation of Adjusted EPS to EPS from continuing operations attributable to Raytheon Company common stockholders and a discussion of why the Company is presenting this information.

**Fourth quarter 2010 Adjusted EPS up 20 percent**

# Earnings Per Share from Continuing Operations: Full-Year



## Adjusted EPS (\$)<sup>(1)</sup>

|                          |               |
|--------------------------|---------------|
| <b>Full-Year 2009</b>    | <b>\$4.87</b> |
| Operational improvements | 0.37          |
| Reduced share count      | 0.23          |
| Other items, net         | <u>0.11</u>   |
| <b>Full-Year 2010</b>    | <b>\$5.58</b> |

## EPS (\$)

|  |               |
|--|---------------|
| <b>Full-Year 2009</b>                  | <b>\$4.89</b> |
| Operational improvements               | 0.37          |
| Reduced share count                    | 0.23          |
| Other items, net                       | 0.11          |
| FAS/CAS pension adjustment             | (0.44)        |
| Q2 UK Border Agency program adjustment | (0.75)        |
| Q3 favorable tax settlement            | 0.45          |
| Q4 early debt retirement impact, net   | <u>(0.07)</u> |
| <b>Full-Year 2010</b>                  | <b>\$4.79</b> |

(1) See page 17 for a reconciliation of Adjusted EPS to EPS from continuing operations attributable to Raytheon Company common stockholders and a discussion of why the Company is presenting this information.

**Full-year 2010 Adjusted EPS up 15 percent**



# 2011 Financial Outlook

|   | <u>2010A</u>  | <u>2011 Outlook*</u>   |
|---|---------------|------------------------|
| <b>Net Sales (\$B)</b>                              | <b>25.2</b>   | <b>25.5 - 26.3</b>     |
| <b>FAS/CAS Pension Inc./(Exp.) (\$M)</b>            | <b>(230)</b>  | <b>(367)</b>           |
| <b>Interest Expense, Net (\$M)</b>                  | <b>(110)</b>  | <b>(155) - (165)</b>   |
| <b>Diluted Shares (M)</b>                           | <b>377</b>    | <b>353 - 359</b>       |
| <b>Effective Tax Rate</b>                           | <b>24.2%</b>  | <b>~30.5%</b>          |
| <b>EPS from Continuing Operations<sup>(1)</sup></b> | <b>\$4.79</b> | <b>\$4.83 - \$4.98</b> |
| <b>Adjusted EPS<sup>(2)</sup></b>                   | <b>\$5.58</b> | <b>\$5.50 - \$5.65</b> |
| <b>Operating Cash Flow from Cont. Ops. (\$B)</b>    | <b>1.9</b>    | <b>2.0 - 2.2</b>       |
| <b>ROIC (%)<sup>(3)</sup></b>                       | <b>14.6</b>   | <b>13.4 - 13.9</b>     |

(1) 2010 and 2011 EPS from continuing operations includes \$43 million and \$2 million of income, respectively, representing the difference between our post-retirement benefits (PRB) credit under FAS in accordance with GAAP and our PRB adjustment under CAS (FAS/CAS PRB adjustment). In order to more clearly show each business' underlying operational performance, we will begin treating the FAS/CAS PRB adjustment (previously reported as part of each business) consistent with the FAS/CAS pension adjustment for management reporting in 2011. Beginning in 2011, we will change our segment presentation to exclude from each business segment the amounts related to the FAS/CAS PRB adjustment and combine such amounts with our FAS/CAS pension adjustment. The foregoing changes in segment presentation and the FAS/CAS pension adjustment are not reflected in the amounts above but will be reflected in future reporting periods in 2011.

(2) Adjusted EPS is EPS from continuing operations attributable to Raytheon Company common stockholders excluding the EPS impact of the FAS/CAS pension adjustment and, from time to time, certain other items. The items excluded from 2010 Adjusted EPS are set forth on page 17. 2011 Adjusted EPS only excludes the FAS/CAS pension adjustment. Adjusted EPS is a non-GAAP financial measure. See page 17 for a reconciliation of Adjusted EPS to EPS from continuing operations and a discussion of why the Company is presenting this information.

(3) ROIC is a non-GAAP financial measure. ROIC has been calculated using the Company's revised ROIC definition as detailed on page 15. We adjusted the ROIC definition to exclude any change from pension contributions, which eliminates all of the non-operational pension impact from the calculation in order to more clearly reflect the underlying business performance in ROIC. For more information on the revised and prior ROIC definitions and the Company's use of ROIC, see pages 15 and 16.

\* 2011 Outlook assumes the closing of the acquisition of Applied Signal Technology in first quarter 2011. The AST acquisition is subject to certain customary closing conditions as discussed more fully in our Schedule TO, as amended, filed with the SEC.

# 2011 Financial Outlook: By Business

|  | <u>Sales (\$B)*</u>    | <u>Operating Margins (%)*</u> |
|--|------------------------|-------------------------------|
| <b>IDS</b>                                     | 5.1 - 5.3              | 16.2 - 16.4%                  |
| <b>IIS</b>                                     | 3.0 - 3.2              | 7.5 - 7.7%                    |
| <b>MS</b>                                      | 5.9 - 6.1              | 11.1 - 11.3%                  |
| <b>NCS</b>                                     | 4.9 - 5.1              | 13.6 - 13.8%                  |
| <b>SAS</b>                                     | 4.9 - 5.1              | 13.3 - 13.5%                  |
| <b>TS</b>                                      | 3.5 - 3.7              | 7.6 - 7.8%                    |
| <b>FAS/CAS Pension Expense</b>                 | -                      | (367)                         |
| <b>Corp./Elims.</b>                            | <u>(2.0) - (2.1)</u>   | <u>(\$260M)-(\$285M)</u>      |
| <b>Total Cont. Ops.</b>                        | <b>\$25.5 - \$26.3</b> | <b>10.6 - 10.8%</b>           |
| <b>FAS/CAS Pension Expense</b>                 |                        | 1.4%                          |
| <b>Adjusted Operating Margin<sup>(1)</sup></b> |                        | <b>12.0 - 12.2%</b>           |

(1) See page 18 for a reconciliation of Adjusted Operating Margin to total operating margin and a discussion of why the Company is presenting this information.

\* 2011 outlook assumes the closing of the acquisition of Applied Signal Technology in first quarter 2011. The AST acquisition is subject to certain customary closing conditions as discussed more fully in our Schedule TO, as amended, filed with the SEC.

# 2011 Financial Outlook: By Quarter

|  | 2011 Estimates |           |           |               |                   |
|--|----------------|-----------|-----------|---------------|-------------------|
|  | Q1             | Q2        | Q3        | Q4            | Total             |
| <b>Sales</b>   | ~23%           | ~23.5%    | ~25.5%    | ~28%          | \$25.5B - \$26.3B |
| <b>EPS</b>   | ~21%           | ~23.5%    | ~25%      | ~30.5%        | \$4.83 - \$4.98   |
| <b>Operating Cash Flow<br/>from Cont. Ops. (\$M)</b> | (300) - (200)  | 375 - 475 | 625 - 725 | 1,300 - 1,400 | \$2.0B - \$2.2B   |

# Pension Impact

*\$ millions*

|                              |                    | <u>Current Projections*</u> |             |             |
|------------------------------|--------------------|-----------------------------|-------------|-------------|
| <u>P&amp;L Impact</u>        | <u>2010 Actual</u> | <u>2011</u>                 | <u>2012</u> | <u>2013</u> |
| FAS                          | (\$896)            | (\$1,093)                   | (\$1,001)   | (\$848)     |
| CAS                          | (666)              | (726)                       | (819)       | (917)       |
| FAS/CAS Pension Inc./ (Exp.) | (\$230)            | (\$367)                     | (\$182)     | \$69        |
| <br><u>Cash Impact</u>       |                    |                             |             |             |
| Gross Funding Required       | (\$1,152)          | (\$1,073)                   | (\$1,024)   | (\$940)     |
| Discretionary Contribution   | (\$750)            | \$0                         | \$0         | \$0         |
| Total Contribution           | (\$1,902)          | (\$1,073)                   | (\$1,024)   | (\$940)     |

\* Current projections for 2011 - 2013 are strictly based on a discount rate of 5.75% for all years, an actual return on assets of 11.3% for the year ending December 31, 2010, an assumed return on assets of 8.75% for all other years and no changes to any other actuarial assumptions or regulatory requirements. The 2011 – 2013 projections do not reflect CAS Harmonization. Actual results will vary for 2011 – 2013 based upon actual returns, changes in actuarial assumptions, market conditions in effect at the time and other census data and regulatory requirements applicable for each year.

# Appendix

# Workdays in Fiscal Reporting Calendar

|                       | Q1        | Q2        | Q3        | Q4        |
|-----------------------|-----------|-----------|-----------|-----------|
| 2011                  | 64        | 64        | 63        | 57        |
| 2010                  | <u>60</u> | <u>64</u> | <u>63</u> | <u>62</u> |
| Increase / (decrease) | 4         | 0         | 0         | (5)       |

|                       | Q1        | Q2        | Q3        | Q4        |
|-----------------------|-----------|-----------|-----------|-----------|
| 2010                  | 60        | 64        | 63        | 62        |
| 2009                  | <u>61</u> | <u>64</u> | <u>63</u> | <u>61</u> |
| Increase / (decrease) | (1)       | 0         | 0         | 1         |

# Revised Return on Invested Capital (ROIC) Calculation

\$ millions

|  | 2009            | 2010            | 2011 Outlook           |
|--|-----------------|-----------------|------------------------|
| Income from cont. ops.   | \$1,977         | \$1,843         | } Combined             |
| FAS/CAS pension adjustment, after-tax*                               | (18)            | 150             |                        |
| Q2 2010 UK Border Agency program adjustment, after-tax**             | -               | 284             |                        |
| Q3 2010 favorable tax settlement                                     | -               | (170)           |                        |
| 2009 and 2010 early debt retirement make-whole provision, after-tax* | 14              | 47              |                        |
| Net interest expense, after-tax*                                     | 71              | 72              |                        |
| Lease expense, after-tax*  | 66              | 67              |                        |
| <b>Return</b>  | <b>\$2,110</b>  | <b>\$2,293</b>  | <b>\$2,165-2,215</b>   |
| Net debt***  | (132)           | (171)           | } Combined             |
| Equity less investment in disc. ops.                                 | 9,560           | 9,944           |                        |
| Lease exp. X 8, plus fin. guarantees                                 | 2,815           | 2,890           |                        |
| Pension liability, net of tax  | 3,612           | 3,049           |                        |
| <b>Invested capital from cont. ops.****</b>                          | <b>\$15,855</b> | <b>\$15,712</b> | <b>\$16,185-15,985</b> |
| <b>ROIC</b>  | <b>13.3%</b>    | <b>14.6%</b>    | <b>13.4-13.9%</b>      |

\* Calculated utilizing the federal statutory rate of 35%

\*\* Calculated utilizing the UK statutory tax rate of 28%

\*\*\* Net debt is defined as total debt less cash and cash equivalents and is calculated using a 2-point average

\*\*\*\* Calculated using a 2 point average

Our revised definition of Return on Invested Capital (ROIC) is the same as our prior definition except stockholders' equity is now adjusted to add back the Company's liability for defined benefit pension plans, net of tax, instead of just the impact of the accounting standard for employers' accounting for defined benefit pension plans. We adjusted the ROIC definition to exclude any change from pension contributions, which eliminates all of the non-operational pension impact from the calculation in order to more clearly reflect the underlying business performance in ROIC. We define ROIC as income from continuing operations excluding the after-tax effect of the FAS/CAS Pension Adjustment and, from time to time, certain other items, plus after-tax net interest expense plus one-third of operating lease expense after-tax (estimate of interest portion of operating lease expense) divided by average invested capital after capitalizing operating leases (operating lease expense times a multiplier of 8), adding financial guarantees less net investment in Discontinued Operations, and adding back the liability for defined benefit pension plans, net of tax. 2009 ROIC also excludes from income from continuing operations the after-tax effect of the fourth quarter 2009 charge associated with the make-whole provision on the early retirement of debt and 2010 ROIC also excludes from income from continuing operations the after-tax effect of the second quarter 2010 UK Border Agency program adjustment, the third quarter 2010 favorable tax settlement and the after-tax effect of the fourth quarter 2010 charge associated with the make-whole provision on the early retirement of debt. ROIC is not a measure of financial performance under generally accepted accounting principles (GAAP) and may not be defined and calculated by other companies in the same manner. ROIC should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. The Company uses ROIC as a measure of the efficiency and effectiveness of its use of capital and as an element of management compensation.

# Prior Return on Invested Capital (ROIC) Calculation

\$ millions

|  | 2009            | 2010            | 2011 Outlook           |
|--|-----------------|-----------------|------------------------|
| Income from cont. ops.   | \$1,977         | \$1,843         | } Combined             |
| FAS/CAS pension adjustment, after-tax*                               | (18)            | 150             |                        |
| Q2 2010 UK Border Agency program adjustment, after-tax**             | -               | 284             |                        |
| Q3 2010 favorable tax settlement                                     | -               | (170)           |                        |
| 2009 and 2010 early debt retirement make-whole provision, after-tax* | 14              | 47              |                        |
| Net interest expense, after-tax*                                     | 71              | 72              |                        |
| Lease expense, after-tax*  | 66              | 67              |                        |
| <b>Return</b>  | <b>\$2,110</b>  | <b>\$2,293</b>  | <b>\$2,165-2,215</b>   |
| Net debt***  | (132)           | (171)           | } Combined             |
| Equity less investment in disc. ops.                                 | 9,560           | 9,944           |                        |
| Lease exp. X 8, plus fin. guarantees                                 | 2,815           | 2,890           |                        |
| Unfunded projected benefit obligation                                | 5,007           | 5,024           |                        |
| <b>Invested capital from cont. ops. ****</b>                         | <b>\$17,250</b> | <b>\$17,687</b> | <b>\$18,581-18,381</b> |
| <b>ROIC</b>  | <b>12.2%</b>    | <b>13.0%</b>    | <b>11.7-12.1%</b>      |

\* Calculated utilizing the federal statutory rate of 35%

\*\* Calculated utilizing the UK statutory tax rate of 28%

\*\*\* Net debt is defined as total debt less cash and cash equivalents and is calculated using a 2-point average

\*\*\*\* Calculated using a 2 point average

Our prior definition of Return on Invested Capital (ROIC) was income from continuing operations excluding the after-tax effect of the FAS/CAS pension adjustment plus after-tax net interest expense plus one-third of operating lease expense after-tax (estimate of interest portion of operating lease expense) divided by average invested capital after capitalizing operating leases (operating lease expense times a multiplier of 8), adding financial guarantees less net investment in Discontinued Operations, and adding back the impact of the accounting standard for employers' accounting for defined benefit pension and other postretirement plans. 2009 ROIC also excludes from income from continuing operations the after-tax effect of the fourth quarter 2009 charge associated with the make-whole provision on the early retirement of debt and 2010 ROIC also excludes from income from continuing operations the after-tax effect of the second quarter 2010 UK Border Agency program adjustment, the third quarter 2010 favorable tax settlement and the after-tax effect of the fourth quarter 2010 charge associated with the make-whole provision on the early retirement of debt. ROIC is not a measure of financial performance under generally accepted accounting principles (GAAP) and may not be defined and calculated by other companies in the same manner. ROIC should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. The Company uses ROIC as a measure of the efficiency and effectiveness of its use of capital and as an element of management compensation.



# Reconciliation of Non-GAAP Measures in Statement of Operations Information

## Adjusted EPS Non-GAAP Reconciliation

(In millions, except per share amounts)

|  | Fourth Quarter   |                  | Full Year        |                  | 2011 Guidance    |                   |
|--|------------------|------------------|------------------|------------------|------------------|-------------------|
|  | 2010             | 2009             | 2010             | 2009             | Low end of range | High end of range |
| Diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders           | \$ 1.37          | \$ 1.30          | \$ 4.79          | \$ 4.89          | \$ 4.83          | \$ 4.98           |
| Per share impact of the FAS/CAS Pension Adjustment (A)   | 0.11             | (0.01)           | 0.40             | (0.04)           | 0.67             | 0.68              |
| Per share impact of United Kingdom (UK) Border Agency program adjustment (B)   | -                | -                | 0.75             | -                | -                | -                 |
| Per share impact of the favorable tax settlement (C)   | -                | -                | (0.45)           | -                | -                | -                 |
| Per share impact of the early debt retirement make-whole provision (D)   | 0.13             | 0.04             | 0.13             | 0.04             | -                | -                 |
| Per share impact of the acceleration of deferred gains related to terminated interest rate swaps on retired debt (E) | (0.03)           | (0.01)           | (0.03)           | (0.01)           | -                | -                 |
| Adjusted EPS (1)   | <u>\$ 1.57</u>   | <u>\$ 1.31</u>   | <u>\$ 5.58</u>   | <u>\$ 4.87</u>   | <u>\$ 5.50</u>   | <u>\$ 5.65</u>    |
| (A) FAS/CAS Pension Adjustment   | \$ 60            | \$ (6)           | \$ 230           | \$ (27)          | \$ 367           | \$ 367            |
| Tax effect (at 35% federal statutory rate)   | (21)             | 2                | (80)             | 9                | (128)            | (128)             |
| After-tax impact   | 39               | (4)              | 150              | (18)             | 239              | 239               |
| Diluted Shares   | 366.0            | 388.4            | 377.0            | 395.7            | 359.0            | 353.0             |
| Per share impact   | <u>\$ 0.11</u>   | <u>\$ (0.01)</u> | <u>\$ 0.40</u>   | <u>\$ (0.04)</u> | <u>\$ 0.67</u>   | <u>\$ 0.68</u>    |
| (B) UK Border Agency program adjustment  | \$ -             | \$ -             | \$ 395           | \$ -             |                  |                   |
| Tax effect (at 28% UK statutory tax rate)  | -                | -                | (111)            | -                |                  |                   |
| After-tax adjustment   | -                | -                | 284              | -                |                  |                   |
| Diluted Shares   | -                | -                | 377.0            | -                |                  |                   |
| Per share impact   | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 0.75</u>   | <u>\$ -</u>      |                  |                   |
| (C) Favorable tax settlement   | \$ -             | \$ -             | \$ (170)         | \$ -             |                  |                   |
| Diluted Shares   | -                | -                | 377.0            | -                |                  |                   |
| Per share impact   | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ (0.45)</u> | <u>\$ -</u>      |                  |                   |
| (D) Early debt retirement make-whole provision   | \$ 73            | \$ 22            | \$ 73            | \$ 22            |                  |                   |
| Tax effect (at 35% federal statutory rate)   | (26)             | (8)              | (26)             | (8)              |                  |                   |
| After-tax impact   | 47               | 14               | 47               | 14               |                  |                   |
| Diluted Shares   | 366.0            | 388.4            | 377.0            | 395.7            |                  |                   |
| Per share impact   | <u>\$ 0.13</u>   | <u>\$ 0.04</u>   | <u>\$ 0.13</u>   | <u>\$ 0.04</u>   |                  |                   |
| (E) Acceleration of deferred gains related to terminated interest rate swaps on retired debt                         | \$ (15)          | \$ (6)           | \$ (15)          | \$ (6)           |                  |                   |
| Tax effect (at 35% federal statutory rate)   | 5                | 2                | 5                | 2                |                  |                   |
| After-tax impact   | (10)             | (4)              | (10)             | (4)              |                  |                   |
| Diluted Shares   | 366.0            | 388.4            | 377.0            | 395.7            |                  |                   |
| Per share impact   | <u>\$ (0.03)</u> | <u>\$ (0.01)</u> | <u>\$ (0.03)</u> | <u>\$ (0.01)</u> |                  |                   |

(1) These amounts are not measures of financial performance under U.S. generally accepted accounting principles (GAAP). They should be considered supplemental to and not a substitute for financial performance in accordance with GAAP and may not be defined and calculated by other companies in the same manner. These amounts exclude the FAS/CAS Pension Adjustment and, from time to time, certain other items. We are providing these measures because management uses them for the purposes of evaluating and forecasting the Company's financial performance and believes that they provide additional insights into the Company's underlying business performance. We also believe that they allow investors to benefit from being able to assess our operating performance in the context of how our principal customer, the U.S. Government, allows us to recover pension costs and to better compare our operating performance to others in the industry on that same basis. Amounts may not recalculate directly due to rounding.

Adjusted EPS is diluted EPS from continuing operations attributable to Raytheon Company common stockholders excluding the EPS impact of the FAS/CAS Pension Adjustment and, from time to time, certain other items. In addition to the FAS/CAS Pension Adjustment, fourth quarter 2010 and 2009 Adjusted EPS exclude the earnings per share impact of the charges associated with the make-whole provision on the early retirement of debt and the impact of the acceleration of deferred gains related to terminated interest rate swaps on retired debt. In addition to the FAS/CAS Pension Adjustment, 2010 and 2009 Adjusted EPS exclude an adjustment on the UK Border Agency program, on which RSL was notified of its termination in the second quarter of 2010, at the UK statutory tax rate that was in effect in the second quarter of 2010, the favorable tax settlement in the third quarter 2010 as a result of our receipt of final approval from the IRS and the U.S. Congressional Joint Committee on Taxation of the IRS' examination of our tax returns for the 1998-2005 tax years, and the impacts of the early retirement of debt in the fourth quarter 2010 and 2009, previously described.

# Reconciliation of Non-GAAP Measures in Statement of Operations Information

## Adjusted Income Non-GAAP Reconciliation

(In millions)

|   | Fourth Quarter   |               | Full Year       |                 | 2011 Guidance       |                      |
|---|--|---------------|-----------------|-----------------|---------------------|----------------------|
|   | 2010   | 2009          | 2010            | 2009            | Low end<br>of range | High end<br>of range |
|   | Income from continuing operations attributable to Raytheon Company common stockholders | \$ 499        | \$ 504          | \$ 1,804        | \$ 1,936            | \$ 1,708             |
| FAS/CAS Pension Adjustment (Tax effect at 35% federal statutory rate)   | 39   | (4)           | 150             | (18)            | 239                 | 239                  |
| UK Border Agency program adjustment (Tax effect at 28% UK statutory tax rate)   | -  | -             | 284             | -               | -                   | -                    |
| Favorable tax settlement  | -  | -             | (170)           | -               | -                   | -                    |
| Early debt retirement make-whole provision (Tax effect at 35% federal statutory rate)   | 47   | 14            | 47              | 14              | -                   | -                    |
| Acceleration of deferred gains related to terminated interest rate swaps on retired debt (Tax effect at 35% federal statutory rate) | (10)   | (4)           | (10)            | (4)             | -                   | -                    |
| Adjusted Income (1)   | <u>\$ 575</u>  | <u>\$ 510</u> | <u>\$ 2,105</u> | <u>\$ 1,928</u> | <u>\$ 1,947</u>     | <u>\$ 1,999</u>      |

## Adjusted Operating Margin Non-GAAP Reconciliation

|   | Fourth Quarter   |               | Full Year     |               | 2011 Guidance       |                      |
|---|------------------|---------------|---------------|---------------|---------------------|----------------------|
|   | 2010             | 2009          | 2010          | 2009          | Low end<br>of range | High end<br>of range |
|   | Operating Margin | 11.7 %        | 12.0 %        | 10.4 %        | 12.2 %              | 10.6 %               |
| Impact of the FAS/CAS Pension Adjustment      | 0.9 %            | (0.1) %       | 0.9 %         | (0.1) %       | 1.4 %               | 1.4 %                |
| Impact of UK Border Agency program adjustment | - %              | - %           | 1.4 %         | - %           | - %                 | - %                  |
| Adjusted Operating Margin (1)                 | <u>12.5 %</u>    | <u>11.9 %</u> | <u>12.7 %</u> | <u>12.1 %</u> | <u>12.0 %</u>       | <u>12.2 %</u>        |

(1) These amounts are not measures of financial performance under U.S. generally accepted accounting principles (GAAP). They should be considered supplemental to and not a substitute for financial performance in accordance with GAAP and may not be defined and calculated by other companies in the same manner. These amounts exclude the FAS/CAS Pension Adjustment and, from time to time, certain other items. We are providing these measures because management uses them for the purposes of evaluating and forecasting the Company's financial performance and believes that they provide additional insights into the Company's underlying business performance. We also believe that they allow investors to benefit from being able to assess our operating performance in the context of how our principal customer, the U.S. Government, allows us to recover pension costs and to better compare our operating performance to others in the industry on that same basis. Amounts may not recalculate directly due to rounding.

Adjusted Income is income from continuing operations attributable to Raytheon Company common stockholders excluding the after-tax impact of the FAS/CAS Pension Adjustment at the federal statutory tax rate of 35% and, from time to time, certain other items. In addition to the FAS/CAS Pension Adjustment, fourth quarter of 2010 and 2009 Adjusted Income exclude the impact of the charges associated with the make-whole provision on the early retirement of debt and the impact of the acceleration of deferred gains related to terminated interest rate swaps on retired debt. In addition to the FAS/CAS Pension Adjustment, 2010 and 2009 Adjusted Income exclude the after-tax impact of an adjustment on the UK Border Agency program in the second quarter 2010, previously described, the favorable tax settlement in the third quarter 2010, previously described, and the early retirement of debt in the fourth quarter 2010 and 2009, previously described.

Adjusted Operating Margin is defined as total operating margin excluding the margin impact of the FAS/CAS Pension Adjustment and the UK Border Agency program adjustment, previously described.