

## DEAR FELLOW SHAREHOLDERS,

Raytheon had another good year in 2005, reflecting our commitment to our customers, shareholders and employees. We are proud that by year-end, we had reduced our net debt position to its lowest level in 10 years and that in 2005 we achieved continued predictability in our results.

Highlights from our 2005 results included total company sales of \$21.9 billion, up 8 percent compared with 2004; Government and Defense sales, up 6 percent; and Raytheon Aircraft Company sales, up 18 percent. Total Raytheon fourth quarter 2005 sales were the highest ever, and our diluted earnings per share from continuing operations rose significantly for the year.

In 2005, our operating cash flow from continuing operations was \$2.5 billion compared with \$2.1 billion in 2004. Our net debt (total debt less cash and cash equivalents) was \$3.3 billion at the end of 2005, a reduction of \$1.3 billion from the end of 2004. Total backlog at the end of 2005 was \$34.4 billion, up \$1.9 billion from the end of the prior year.

During 2005, the company returned cash to shareholders through a previously authorized 10 percent increase in the dividend — and through the repurchase of 11.2 million shares of common stock for \$436 million, part of a total \$700 million stock repurchase program authorized by the Board.

At Raytheon, we believe that there is a link between this financial success and our ongoing emphasis on customer focus, growth and shareholder value. We plan to continue to run the company with a focus on our customers, concentrating on continuous improvement in our performance, relationships and solutions. To this end, we have increased our emphasis on speed and agility in the organization to help us deploy our capabilities and programs ever more efficiently in our changing world.

### Performance

At Raytheon, performance means promises made, promises kept. It means leveraging the best processes, metrics and oversight to deliver on our customer promises. This focus makes us more efficient, provides consistency of priorities and goals, and creates a framework for predictability that we all share. One example is our Integrated Product Development System (IPDS), which creates consistent evaluation and execution at each milestone in the life-cycle of a program, providing a business roadmap that the entire company can follow.

Oversight is also very important to us. Our operating reviews, annual operating plan reviews, human resources reviews, strategy reviews and capabilities provided by our internal audit team and our Raytheon Company Evaluation Team enable Raytheon managers — from the corner office to the factory floor — to understand our business objectives and performance goals so that we are aligned as an organization. It is this level of understanding and alignment that allows us to create value from our broad and deep portfolio of programs and contracts.

A few highlights of our focus include:

**MISSION ASSURANCE** — Performance is achieved when business objectives meet customer needs in a quality environment. As I said in my letter to you last year, whether the user of our systems and services is a soldier, sailor, airman or Marine; a researcher in the Antarctic; an air traffic controller; or a passenger or pilot in one of our Beechcraft® or Hawker® aircraft — our customers depend on us to do the job right. At Raytheon, we call this Mission Assurance. It means that when our customers see the Raytheon name, there should be “no doubt.”

Raytheon employees around the world embrace Mission Assurance — and “no doubt” — as our customer-focused measurement of success.

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**RAYTHEON SIX SIGMA™** — Raytheon Six Sigma (R6σ®) is an example of process discipline at Raytheon. Over 70 percent of our employees are now R6σ Specialists, while more than one percent of the company’s employees are now trained Six Sigma Experts. R6σ thinking (define the “to-be” state, describe the current state and fill the gap) is embedded in the DNA of our company and we are proud to say we have successfully brought it to our customers as well. We were especially pleased by the exceptional attendance of our customers who were part of our annual R6σ forum.

**ENVIRONMENTAL, HEALTH & SAFETY** — We believe that environmental, health and safety flourishes when a company has strong process discipline. Since 1998, we have reduced our lost workday injury rate by 72 percent. In 2005 alone, we reduced our lost workday injury rate by 19 percent to 0.21 per 100 employees, our best effort ever. We are not satisfied, however. Our ultimate goal is to strive for an injury-free workplace, and we are continuing our efforts in this direction.

### **Relationships**

Listening, anticipating, responding and following through with our customers, partners and each other — this defines our focus on relationships. By listening to our customers, we are able to learn and respond. By responding with speed and agility, we are able to draw on the full range of our capabilities — and mix and match them in innovative ways to meet new and urgent customer needs. To meet our customers’ expectations we are driven by a very straightforward challenge: “Early is on time, and on time is late.”

We believe that this approach — so simple in its presentation yet so complex from an implementation standpoint — aligns us with our customers and will transform the manner by which we measure our own success going forward. We just raised the bar on customer satisfaction and we are energized by the challenge.

### **Solutions**

To develop and provide superior solutions that achieve the effects our customers need, we remain focused on our core technologies of Radio Frequency (RF); Electro-Optics/Infrared (EO/IR); Missiles; and Command, Control, Communications, Computers and Intelligence (C4I). What sets us apart is our ability to leverage this domain expertise in new areas to grow as a Mission Systems Integrator. Our innovation and technology must have an effect to be of value.

**MISSION SYSTEMS INTEGRATION** — Mission Systems Integration (MSI) refers to the integration of multiple systems to deliver a solution that will accomplish a specific mission for a customer. Our domain expertise allows us to *identify* the elements that need to be connected, while our systems engineering capabilities enable us to help our customers *connect* the elements, to integrate the systems to achieve the mission. We know that our customers value our MSI capability and we understand how this capability can help us grow in a changing defense environment.

**MISSION SUPPORT** — Customer focus is a total commitment. As such, it must also include Mission Support, which goes beyond supporting point products to providing total life-cycle support and enabling mission success. We are beginning to see the effects of this focus.

### **Talent**

Raytheon’s focus on customer success, growth and shareholder value would not be possible without talented people throughout the company. To retain and attract the best talent, it is essential that we continue our journey of inclusiveness. While we are pleased to have received recognition for our work in this area, we realize that none of us in the company can walk around with a 1,000-page book detailing how to get inclusiveness right. It needs to be natural and intuitive, a matter not just of the “head” but also the “heart.”

We believe strongly that our inclusive culture is a key differentiator in today's competitive talent landscape. Our employees and potential employees have a choice, and we want them to choose Raytheon.

We also need to successfully reach across the generations in our workplace to leverage differences for success. Many of our men and women in uniform are of the same generation that is now just entering the workforce. New generations in our company will increasingly be developing solutions for their generational peers in the field. Whether one is a "Boomer", "Gen X" or "Gen Y"/"Millennial" employee, we have created an inclusive culture that values and respects different opinions — indeed, a culture that seeks them out in order to best analyze a problem or create a solution for our customers. As a result, we have created an energized environment that embraces change for the opportunities — not the challenges — it provides.

Our talent discussions go well beyond the challenges of today; we also need to be sure the pipeline of *future* engineering talent is strong. We believe that U.S. industry faces a tough challenge in this area and we are trying to help. We have taken a leadership position with the Business-Higher Education Forum's Science, Technology, Engineering and Mathematics (STEM) Initiative — and are proud of our efforts in this area and of our diversity recruiting efforts on campuses.

In 2005, we launched a new community outreach program called MathMovesU to encourage 6th- to 8th-graders to get excited about math and its potential. We want to connect young minds to the possibility of an exciting and successful career path — one that can match this generation's specific interest in technology with a career in engineering, research, programming and science. We have only just begun our efforts to



engage these young students, but their response has been both rewarding and promising. To see a young student's face light up when he or she finally understands the linkage between the latest video game and mechanical, electrical or software engineering — it is a great feeling and an investment in our country's future.

### **Integrity**

Raytheon has a long-established ethics program, and our Ethics and Compliance Office is highly respected among its peers. We engage all of our employees and the Board of Directors in ethics learning, and we have vehicles in place to enable employees not only to report concerns — anonymously if they wish — but to seek advice *before* they make difficult decisions. We are now taking our program to the next level — to move from ethics "training" to ethics "education," from developing a skill in a course to creating an ongoing commitment to understanding the issues and preserving an open culture of communication and respect. We see ethics awareness as a continuous process that must involve every employee.

### **Your Company**

In our most recent company-wide employee survey, we exceeded normative rankings in 13 of 16 categories for which we benchmark externally. In other words, Raytheon's employees are saying they feel good about the company — and you can count me among them.

We believe that we are on the right path to customer success and shareholder value — and we appreciate your confidence in us as we continue this journey.

A proud member of the Raytheon team,

William H. Swanson  
Chairman and Chief Executive Officer

March 2006