

Non-GAAP Financial Measures

From time to time, Raytheon discusses measures which may be considered “non-GAAP” financial measures under applicable Securities and Exchange Commission rules and regulations. These non-GAAP financial measures should be considered supplemental to and not a substitute for financial information prepared in accordance with generally accepted accounting principles. The definitions of these non-GAAP financial measures may differ from similarly titled measures used by others. Raytheon uses non-GAAP financial measures to facilitate management’s internal comparisons to Raytheon’s historical operating results, to competitors’ operating results, and to provide greater transparency to investors of supplemental information used by management in its financial and operational decision-making, including to evaluate Raytheon’s operating performance and to determine management incentive compensation. Raytheon also uses non-GAAP financial measures which exclude certain charges and credits because it believes that such items are not indicative of its core operating results, are not indicative of trends, and do not provide meaningful comparisons with other reporting periods.

The following is a list of certain non-GAAP financial measures which Raytheon has discussed. In the event that Raytheon releases a non-GAAP financial measure orally, telephonically, by webcast, by broadcast, or by similar means, Raytheon may provide information regarding such measure, including a reconciliation of the differences between such measure and the most directly comparable GAAP financial measure, on this page (in lieu of providing such information in the applicable presentation or release).

Net debt – Total debt less cash and cash equivalents.

Net capital – Net debt plus total stockholders’ equity.

Return on Invested Capital (ROIC) – The sum of income from continuing operations excluding the after-tax effect of the FAS/CAS adjustment* and, from time to time, the after-tax effect of 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.

*The FAS/CAS adjustment is the difference between SFAS No. 87 (FAS) pension expense or income and the Cost Accounting Standards (CAS) (the standards that prescribe the allocation to and recovery of pension costs on U.S. government contracts) pension expenses.

Free cash flow – Operating cash flow less capital spending and internal software spending.

Adjusted EPS – Diluted EPS from continuing operations attributable to Raytheon Company common stockholders excluding the earnings per share impact of the FAS/CAS adjustment* and, from time to time, certain other items.

Adjusted Operating Margin – Total operating margin excluding the margin impact of the FAS/CAS adjustment* and, from time to time, certain other items.

Adjusted Income– Income from continuing operations attributable to Raytheon Company common stockholders excluding the after-tax impact of the FAS/CAS adjustment* and, from time to time, certain other items.