
In 2008, Raytheon adopted a number of governance enhancements to ensure the company continues to embrace progressive practices in the area of corporate governance. In recognition of its leadership on governance, Raytheon's Board of Directors was named the 2008 "Board of the Year" by the New England Chapter of the National Association of Corporate Directors.

# Governance

## Ensuring Independence, Accountability and Transparency

Sound corporate governance provides the structure for overseeing the company's business and operations, and also establishes a strong foundation for effective corporate citizenship. Raytheon entered 2008 with a contemporary governance framework emphasizing active and independent Board oversight, accountability to shareholders, highly transparent financial reports and disclosures, and vigilant compliance with complex and changing regulatory responsibilities. Building on this strong foundation, in the past year the company adopted a number of significant governance enhancements.

### INDEPENDENCE

Under the company's Governance Principles, independent directors must constitute a substantial majority of the Board. To be considered independent, directors must meet strict criteria demonstrating that they are free of any relationship with the company that might pose a conflict of interest. In addition, each of the Board's four committees that meet regularly — the Audit Committee, the Governance and Nominating Committee, the Management Development and Compensation Committee (MDCC), and the Public Affairs Committee — is exclusively independent.

### ACCOUNTABILITY

Raytheon has majority voting in uncontested director elections and requires the entire Board to stand for election each year. The company has eliminated its "poison pill" barrier to hostile takeover. And Raytheon's guidelines for stock ownership, together with its pay-for-performance executive compensation program, provide further assurance that Raytheon directors and officers will identify with shareholder concerns and perspectives.

### TRANSPARENCY

Raytheon is committed to transparent reporting at every level. The company has robust controls and processes emphasizing transparency to ensure that information required to be disclosed is appropriately documented, processed, summarized and reported in a timely manner. Raytheon's Disclosure Committee assists senior management in helping to ensure that the company's disclosures are accurate and complete, and fairly report Raytheon's financial condition and results of operations in all material respects.

### RECENT GOVERNANCE ENHANCEMENTS

In the past year, the company adopted a number of important governance enhancements. First, the Board amended the company's Governance Principles to add a Restatement Clawback Policy. This policy gives the Board the right to recover incentive compensation or stock awards made to any elected officer, to the extent that such payments or awards were inflated due to erroneous financial reporting knowingly caused by the executive. This policy is designed to maximize the likelihood that the company will be successful in seeking to recover incentive compensation attributable to improperly inflated financial results.

Second, the Board amended the company's Governance Principles to establish a formal policy limiting the number of public company boards on which a director may serve. The limits adopted are five public company boards (including Raytheon) for any director who does not serve as a current CEO of a public company and three public company boards (including Raytheon) for any director who does currently serve as a CEO. This latter limitation applies to our Chairman and CEO.

Third, the MDCC adopted a formal policy to ensure that its compensation consultant meets robust independence requirements. This policy requires the MDCC to assess annually the independence of its compensation consultant. As part of this assessment, the MDCC reviews any services proposed to be provided by the consultant to the company, and considers whether the provision of such non-MDCC services might impair the consultant's independence. Such non-MDCC services may be provided only with the MDCC's pre-approval.

Finally, to achieve greater transparency, we instituted a new website disclosure of the company's so-called "soft money" contributions — direct corporate contributions to political parties, state and local political candidates, and political organizations established under section 527 of the tax code.

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