

BAE Systems plc

Corporate Responsibility Committee – Terms of Reference

(Adopted by the Board on 17th February 2010 and amended on 16 November 2011 and 17 February 2016)

References to "the Committee" shall mean that Corporate Responsibility Committee

References to "the Board" shall mean the Board of Directors of BAE Systems plc

1. Definitions

- 1.1 CR – Corporate Responsibility
- 1.2 Responsible Behaviour – behaviour relating to health and safety, workplace policies, environmental impact and business ethics.

2. Membership

- 2.1 Members of the Committee shall be appointed by the Board and shall comprise a Chairman and at least two other members.
- 2.2 The members of the Committee shall be independent non-executive Directors and the Chairman of the Board shall not be a member of the Committee.
- 2.3 The Committee may ask any executive Director who is not a member of the Committee and any senior manager of the Company to attend meetings of the Committee either regularly or by invitation. Such invitees shall have no right of attendance. The Committee may also invite other external parties to attend meetings in whole or in part.
- 2.4 The Committee may ask the head of the Company's internal audit function to attend Committee meetings.

3 Secretary

- 3.1 The Company Secretary or designated representative shall act as Secretary to the Committee.

4 Quorum

- 4.1 The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

5. Frequency of Meetings

- 5.1 The Committee shall usually meet four times a year but shall meet not less than three times each year.
- 5.2 The Chairman shall call a meeting of the Committee at the request of any member of the Committee, the Managing Director CR or the head of the Company's internal audit function.
- 5.3 The Corporate Responsibility and Audit Committees shall hold at least one joint meeting a year at which it shall decide on the preparation of the annual internal audit programme.

6. Minutes

- 6.1 The Company Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 The Company Secretary shall ascertain at the beginning of the meeting the existence of any conflicts of interest and minute them accordingly.
- 6.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

7. Annual General Meeting

The Committee shall produce a report on its activities during the year to be included in the Company's annual report and accounts. The Chairman of the Committee shall attend the Annual General Meeting and be available to respond to any shareholder questions concerning the Committee's responsibilities and activities.

8. Duties

8.1 Development of CR Strategy and Policy

- 8.1.1 The Committee shall assist the Board in overseeing the development of strategy and policy on social, environmental and ethical issues.
- 8.1.2 On an annual basis, the Committee shall undertake to review and recommend for approval by the Board the areas to be given priority in the CR plan for the forthcoming year.

8.2 Internal Control and Risk Assessment

- 8.2.1 The Committee shall keep under review the effectiveness of the Company's internal control policies and procedures for the

identification, assessment, management and reporting of reputational risks involving Responsible Behaviour, to include health and safety, workplace policies, environmental impact and business ethics.

- 8.2.2 The Committee shall review, prior to endorsement by the Board, the proposed statement to be included in the Annual Report on the Group's system of internal controls, including risk management systems, in so far as it relates to CR.

8.3 Internal Audit

- 8.3.1 Members of the Committee shall review CR related reports from Internal Audit and assess management responsiveness to the findings.
- 8.3.2 The Committee shall monitor the role and effectiveness of the Company's Internal Audit Function in relation to CR and monitor the development of the capability and capacity of Internal Audit to perform its role with regards to CR assurance.
- 8.3.3 The Committee and the Audit Committee shall approve a programme of internal audit work each year aimed at assessing the effectiveness of policies and processes relating to key areas of responsible behaviour.
- 8.3.4 The Committee and the Audit Committee shall be jointly responsible for approving the appointment and removal of the Head of the Company's Internal Audit function.
- 8.3.5 The Head of the Company's Internal Audit function and Managing Director of the CR function shall have direct access to the Chairman of the Committee.

8.4 External Assurance

- 8.4.1 The Committee shall regularly review the requirement for external assurance of CR related matters. It may appoint from time to time external third parties to carry out external assurance of the effectiveness of CR related policies, processes and initiatives and the accuracy of CR reporting. This may include reviewing the Company's conduct with regard to responsible behaviour and the management of associated risk.
- 8.4.2 For each assurer appointed the Committee itself shall:
- Review and agree the scope of work to be undertaken by the assurer;
 - Review reports produced by the assurer;
 - Assess management responsiveness to recommendations in such reports;
 - Ensure that appropriate safeguards are in place to protect independence and objectivity of the assurer;
 - Ensure that the required expertise and resources are available to support any activities;

- Approve fees payable in respect of work to be undertaken.

8.5 Other Duties

- 8.5.1 The Committee shall oversee and support key stakeholder engagement on responsible behaviour.
- 8.5.2 The Committee shall undertake, on behalf of the Board, to make proposals to the Remuneration Committee regarding appropriate CR related performance objectives for Executive Directors and, in due course, providing its assessment as to performance against such objectives.
- 8.5.3 The Committee shall review the Company's arrangements for employees to obtain further advice on responsible behaviour or raise and report concerns, in confidence, where there may be possible improprieties. This will include the Company's Ethics Helpline.
- 8.5.4 The Committee shall review its own performance and terms of reference on a regular basis.
- 8.5.5 The Committee shall ensure that the Global Code of Conduct is regularly reviewed and reflects best practice for such codes.
- 8.5.6 The Committee shall provide oversight of the Company's compliance with CR related policies and procedures.

9. Reporting & Communication

9.1 External Reporting & Communications

- 9.1.1 The Committee shall review the annual Corporate Responsibility Report, prior to approval of the Report by the Board.
- 9.1.2 The Committee shall undertake, on behalf of the Board, to monitor the integrity of CR reporting in the annual Corporate Responsibility Report.
- 9.1.3 The Committee shall ensure the annual Corporate Responsibility Report includes an examination of responsible behaviour within the Company.

9.2 Reporting Responsibilities

- 9.2.1 The Committee Chairman shall report to the Board on the proceedings of the Committee on a regular basis including the outcomes of the work undertaken by the internal audit function and any external assurer.

10 **Authority**

- 10.1 The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- 10.2 The Committee shall oversee, on behalf of the Board, any investigations concerning matters detailed in these Terms of Reference.
- 10.3 The Committee may obtain at the Company's expense independent professional advice on any matters covered by these Terms of Reference.