

## **Board Charter**

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The Board is responsible for the good management of the Company and its principal aim shall be to enhance the Company's long-term value for the benefit of shareholders.

### **Governance Principles**

#### ***Strategy***

The Board shall agree a business strategy for the Company that shall be reviewed and refreshed as necessary with a view to ensuring that shareholder value is protected and enhanced.

#### ***Performance***

The Board shall monitor on a regular basis the Company's performance against an agreed strategy and business plan. In addition, it shall agree key objectives for the Chief Executive on an annual basis and will monitor performance against these.

The Board shall evaluate critically on a regular basis its own performance, that of its committees and individual Directors.

#### ***Standards and Values***

The Board shall set global principles, values and standards and agree policies and processes to guide the affairs of the Company in pursuing its strategic intention to become a leader in standards of responsible business conduct among global companies.

Board members shall be exemplars of the Company's values, principles, and standards.

### ***Oversight***

The operational management of the Company within an agreed strategy and business plan shall be delegated to the Chief Executive but the Board shall exercise oversight over the discharge of this delegation. Such oversight shall be based on:

- **Controls**

The Board shall ensure that an effective system of internal controls is in place at all times. Such a system shall be used to identify and manage risks that threaten the fulfilment of the Company's business objectives. This includes material failure to perform in accordance with agreed business plans, non-compliance with law and regulation, fraud and material losses and failure to maintain appropriate accounting records.

- **Information**

The Board shall ensure that it receives accurate and timely information on the performance of the Company and shall agree with the Chief Executive the nature and scope of the information to be provided. The Chief Executive shall be obliged to bring to the Board's attention all matters that materially affect, or are capable of materially affecting, the performance of the Company and the achievement of its strategy.

- **Delegated Authorities**

The Board shall approve the delegation of certain responsibilities and authorities but shall maintain a schedule of matters to be reserved specifically for its decision (see Appendix A).

### ***People***

The Board shall be responsible for ensuring that the Company is managed by individuals with the necessary skills, experience and knowledge to deliver the Company's agreed business strategy and high standards of responsible business conduct. The senior management resources and succession plans shall be reviewed by the Board annually.

The Board recognises that collectively it is responsible for managing effectively the succession of appointments to the Board to ensure that it has access to the right skills, experience and knowledge necessary for it to discharge its duties and promote the Company's success. The Board shall aim to ensure that at least half of its members are free from any relationships or circumstances that could affect a Director's judgement.

## **The Role of the Chairman**

The Chairman is responsible for creating the conditions for the effective working of the Board and is specifically responsible for the following:

- Chairing Board meetings and setting the agenda for such meetings and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues.
- Promoting a culture of openness and debate amongst Directors and senior management by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive Directors.
- Promoting the highest standards of corporate governance, including compliance with the UK Corporate Governance Code wherever possible.
- Promoting the requirement that all Board members are exemplars of the Company's values, principles and standards.
- Through the Nominations Committee, ensuring that the Board comprises individuals with an appropriate mixture of skills, experience and knowledge.
- Ensuring that the Company maintains effective communication with shareholders and that their views and any concerns are understood by the Board.
- Working with the Chief Executive to ensure that the Board receives accurate and timely information on the performance of the Company.
- Representing the Company at the highest level and in conjunction with the Chief Executive developing strategic relationships with major customers and political leaders worldwide.
- Leading the evaluation of the performance of the Board, its committees and individual Directors
- Establishing an effective working relationship with the Chief Executive, providing support and advice whilst respecting executive responsibility.
- Ensuring that a well constructed induction programme is provided for new Directors, that all Directors have the opportunity to develop their understanding of the Company and that they are kept informed of matters affecting the Company.

### **The Role of the Chief Executive**

The Chief Executive is responsible for the leadership and the operational and performance management of the Company within the strategy and business plan agreed by the Board.

The Chief Executive is specifically responsible for the following in respect of his/her relationship with the Board:

- Developing a business strategy for the Company to be approved by the Board on an annual basis.
- Producing business plans for the Company to be approved by the Board on an annual basis.
- Overseeing the management of the executive resource and succession planning processes and presenting annually the output from these to the Board and Nominations Committee.
- Ensuring that effective business and financial controls and risk management processes are in place across the Company and that all relevant laws and regulations are complied with.
- Making recommendations to the Board on the appropriate delegation of authority within the group.
- Keeping the Board informed regularly as to the performance of the Company and bringing promptly to the Board's attention all matters that materially affect, or are capable of materially affecting, the performance of the Company and the achievement of its strategy.
- Developing for the Board's approval appropriate values and standards to guide all activities undertaken by the Company.
- Providing clear and visible leadership in responsible business conduct.
- Promoting the requirement that all Senior Leaders are exemplars of the Company's values, principles, and standards.
- Owning the Company's commitment to all aspects of Corporate Responsibility.

### **Role of the Senior Independent Director**

The Senior Independent Director shall be responsible for the following:

- Being available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or other executive Directors has failed to resolve or for which such contact is inappropriate.
- Provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary.
- Chairing the Nominations Committee when it is considering the Chairman's succession.

- **Providing feedback on the Chairman's performance as derived from the evaluation exercise undertaken by the Board.**

#### **Role of the Company Secretary**

**The Company Secretary is specifically responsible for the following:**

- **Under the direction of the Chairman, ensuring good information flows within the Board and its committees and between senior management and non-executive directors, as well as facilitating induction activities for directors and assisting with their development as required.**
- **Advising the Board through the Chairman on all governance matters.**

- **Committees of the Board**

The Board has created the following standing Committees:

- **Audit Committee**
- **Corporate Responsibility Committee**
- **Nominations Committee**
- **Remuneration Committee**
- **Non-Executive Directors' Fees Committee**
- **Banking Committee**

Terms of reference for the above committees are shown in the attached Appendix B.

## **Appendix A**

### **Matters reserved for the Board**

- 1. Approving the Company's vision, values, principles of ethical conduct, delegated authorities and overall governance structure.**
- 2. Approving all financial and commercial matters that it has reserved for its decision.**
- 3. Approval of the Company's strategy and business plan.**
- 4. Approval of the Company's annual report and accounts and the preliminary and interim statements.**
- 5. Approval of any distributions to shareholders including the approval of any interim dividend payments and any recommendations to shareholders concerning final dividends.**
- 6. Approval of any significant changes to accounting policies or practices.**
- 7. Appointment or removal of any Director or the Company Secretary.**
- 8. Approval of all circulars, prospectuses and other documents sent to shareholders (except for documents of a routine nature).**
- 9. Approving the issuing and allotment of shares, changes to the capital structure of the Company, its legal status as a public company, the listing of its shares and its name.**
- 10. Recommending to shareholders the appointment, re-appointment or removal of the Company's Auditors.**
- 11. Forming committees of the Board and approving their terms of reference.**
- 12. Approval of the Board Charter (including this schedule of reserved matters) and the Operational Framework (a document detailing the Company's vision, values, delegated authorities and overall governance structure).**

## Appendix B



### Audit Committee – Terms of Reference

Approved by the Board on 10<sup>th</sup> September 2003. Amended on 31<sup>st</sup> January 2007, 20<sup>th</sup> February 2008, 18<sup>th</sup> February 2009, 17 February 2010 and 16 February 2011

References to “the Committee” shall mean the Audit Committee.

References to “the Board” shall mean the Board of Directors of BAE SYSTEMS plc.

#### 1. Membership

- 1.1. The Committee shall be appointed by the Board on the recommendation of the Nominations Committee, and shall comprise a Chairman and at least two other members.
- 1.2. All members of the Committee shall be independent non-executive directors. At least one member of the Committee shall have recent and relevant financial experience.
- 1.3. The Committee may ask any executive Director of the Company 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.
- 1.4. Non-executive directors who are not members of the Committee may attend Committee meetings unless agreed otherwise by the Committee.
- 1.5. The Committee shall ask a representative of the Company’s Auditors and the head of the Company’s internal audit function to attend Committee meetings. Each year the Committee shall have one meeting or part of a meeting with the Auditors without any executive Directors or members of management present. The Committee shall meet annually with the head of the Company’s internal audit function on a similar basis.

#### 2. Secretary

- 2.1. The Company Secretary or his nominee shall act as Secretary to the Committee.

#### 3. Quorum

- 3.1. The quorum necessary for the transaction of business shall be two. 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.



#### **4. Frequency of Meetings**

- 4.1. The Committee shall usually meet six times each year but shall meet on not fewer than three times each year.
- 4.2. The Chairman shall call a meeting of the Committee at the request of the Auditors or the head of the Company's internal audit function.

#### **5. Minutes**

- 5.1. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 5.2. 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.

#### **6. Annual General Meeting**

- 6.1. The Chairman of the Committee shall attend the Annual General Meeting and be available to respond to any shareholder questions on the Committee's responsibilities and activities.

#### **7. Duties**

##### **7.1. Internal Control and Risk Assessment**

- 7.1.1. The Committee shall keep under review the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risk.

##### **7.2. Internal Audit**

- 7.2.1. The Committee shall monitor the role and effectiveness of the Company's internal audit function and management response to its findings and recommendations.
- 7.2.2. The Committee shall consider and approve the Internal Audit Charter, the resourcing of the Internal Audit function and whether it has access to information to enable it to fulfil its mandate. It shall also be advised of the planned programme of audits and progress against that programme.
- 7.2.3. The Committee shall approve a programme of internal audit work each year; in addition the Committee shall be jointly responsible with the Corporate Responsibility Committee for approving such a programme aimed at assessing the effectiveness of policies and processes relating to key areas of ethical and reputational risk.

- 7.2.4. Members of the Committee shall receive a summary of all reports produced by the internal audit function and have access to all such reports in full.
- 7.2.5. Approve the appointment or removal of the head of the Company's internal audit function.
- 7.2.6. The head of the Company's internal audit function shall have direct access to the Chairman of the Committee.

### 7.3. **Auditors**

- 7.3.1. The Committee shall consider and make recommendations to the Board as regards the appointment and re-appointment of the Company's Auditors, and shall ensure that the senior partner responsible for the Auditors' team is changed from time to time.
- 7.3.2. The Committee shall keep under review the relationship with the Auditors including (but not limited to):
  - approving the terms of their engagement;
  - agreeing the scope of their annual audit;
  - the independence and objectivity of the Auditors;
  - their qualifications, expertise and resources;
  - the effectiveness of the working relationship with the Auditors;
  - approving fees payable to the Auditors in respect of audit work they undertake, and
  - developing and implementing a policy on the supply of any non-audit work that the Auditors may undertake for the Company.
- 7.3.3. The Committee shall review with the Auditors their proposed audit programme and the results of their audit of the Company's financial statements.
- 7.3.4. The Committee shall review the audit representation letters before signature by management.
- 7.3.5. The Committee shall review the management letter (or equivalent) and review and monitor management's responsiveness to the Auditor's findings and recommendations.
- 7.3.6. Committee shall review the processes that aim to ensure that the Auditors are aware of all information that is relevant to their audit. The output from such processes shall be reviewed by the Committee at the conclusion of each audit.
- 7.3.7. At the end of the annual audit cycle, the Committee shall assess the effectiveness of the audit process:
  - reviewing whether the Auditors have met the agreed audit plan;
  - considering the robustness and perceptiveness of the Auditor; and
  - obtaining feedback from key individuals about the conduct of the audit.

#### **7.4. Financial Statements**

- 7.4.1. The Committee shall monitor the integrity of the Company's financial statements.
- 7.4.2. The Committee shall review the significant financial reporting issues and judgements made in relation to the preparation of the Company's annual, half-yearly reports and interim management statements. Such matters shall include (but not be limited to) accounting standards, accounting policies, the going concern assumption, the clarity of disclosures, adjustments resulting from the audit and conformity with legal and regulatory requirements.
- 7.4.3. The Committee shall review the proposed statement on internal control systems prior to endorsement by the Board. It shall also review the policies and processes for identifying and assessing business risk and the management of those risks.

#### **7.5. Reporting Responsibilities**

- 7.5.1. The Committee Chairman shall report to the Board on the proceedings of the Committee on a regular basis.
- 7.5.2. The Company's annual report and accounts shall include a separate section describing to shareholders the role of the Committee and its responsibilities and how it has discharged these responsibilities during the year.
- 7.5.3. The Company Secretary shall circulate the minutes of the Committee's meetings to all Directors.

#### **7.6. Other Matters**

- 7.6.1. In order to ensure that employees are able, in confidence, to raise concerns about possible improprieties in matters of financial reporting, the Committee shall receive a report each year from the Corporate Responsibility Committee on its review of the effectiveness of the Company's Ethics Helpline.
- 7.6.2. The Committee shall review the Company's processes for detecting fraud.
- 7.6.3. The Committee shall, to the extent provided for by shareholder controls and board representation, ensure that appropriate arrangements are in place for the audit of the group's joint venture companies and similar entities.
- 7.6.4. The Committee shall review on a regular basis its own performance and terms of reference to ensure that it is operating effectively.

### **8. Authority**

- 8.1. The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- 8.2. The Committee may, at the Company's expense, obtain independent professional advice on any matters covered by these terms of reference.



## Corporate Responsibility Committee – Terms of Reference

(Adopted by the Board on 17<sup>th</sup> February 2010)

*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.
- 1.3 CR Assurer – an independent entity appointed to act as an external assurer of the Company’s CR Reporting.

### 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, these may include but not limited to the CR Assurer and professional advisers.
- 2.4 The Committee may ask a representative of the CR Assurers and the head of the Company’s internal audit function to attend Committee meetings. Each year the Committee shall have one meeting or part of a meeting with the CR Assurer without any executive Directors or members of management present.

### Secretary

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

## **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 CR Assurer, 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 CR Assurer**

- 8.4.1 The Committee shall undertake, on behalf of the Board, to appoint and reappoint the CR Assurer; who shall not be the Company's financial Auditor.
- 8.4.2 The Committee shall keep under review its relationship with the CR Assurer including (but not limited to):
- approving terms of engagement;
  - agreeing the scope of the CR Assurer's annual assurance programme;
  - ensuring appropriate safeguards are in place to protect its independence and objectivity;

- ensuring that the required expertise and resources are available to the CR Assurer; and
  - approving fees payable to the CR Assurer in respect of work to be undertaken.
- 8.4.3 The Committee shall review audit and assurance reports produced by the CR Assurer and assess management responsiveness to recommendations in such reports.
- 8.4.4 The CR Assurer shall review and report to the Committee on the Company's conduct with regards to responsible behaviour and the management of associated reputational risk at regular intervals.
- 8.4.5 The Committee shall review the CR Assurer's proposed assurance plan, agree its programme of activities for the year and keep these under regular review.
- 8.4.6 The Committee shall review any proposed letters of representation required by the CR Assurer in support of its activities.

## **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 monitor the implementation of the Woolf Report and ensure that the Global Code of Conduct is regularly reviewed and reflects best practice for such codes.

## **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 the CR 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.



## **Nominations Committee - Terms of Reference**

(Approved by the Board on 29 April 2003)

(Amended by the Board on 21 February 2007, 20 February 2008 and 24 September 2008)

*References to "the Committee" shall mean the Nominations Committee.*

*References to "the Board" shall mean the Board of Directors of BAE SYSTEMS plc.*

### **1. Membership**

- 1.1. The Committee shall have at least three members, one of whom shall be the Chairman of the Board and such other directors as shall be appointed by the Board.
- 1.2. With the exception of the Chairman of the Board all other members of the Committee shall be non-executive directors of the Company a majority of whom shall be independent of management and free from any business or other relationship that could interfere with the exercise of their independent judgement.
- 1.3. The Board shall appoint the Committee Chairman.

### **2. Secretary**

- 2.1. The Company Secretary shall act as the Secretary to the Committee.

### **3. Quorum**

- 3.1. The quorum necessary for the transaction of business shall be two. 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.

### **4. Meetings**

- 4.1. The Committee shall agree each year the dates on which meetings are to be held that year and may meet at such other times as the Chairman of the Committee may determine.
- 4.2. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any member thereof.
- 4.3. The Chief Executive shall attend meetings of the Committee as required.

## 5. Minutes of Meetings

- 5.1. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 5.2. The Minutes of Committee meetings shall be circulated to all members of the Board after they have been approved by the Committee unless the Chairman of the Committee deems it inappropriate to do so because of the nature of any matter discussed at a particular meeting.

## 6. Annual General Meeting

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

## 7. Duties

The Committee shall:

- 7.1. Review regularly the structure, size and composition of the Board and make recommendations to the Board with regards to any changes that it believes are necessary or desirable.
- 7.2. Prepare a description of the role and capabilities required for particular Board appointments having regard to the balance of skills, knowledge and experience of the Board.
- 7.3. Identify and nominate for the approval of the Board suitable candidates to fill vacancies for non-executive positions on the Board as and when they arise.
- 7.4. As part of the process for nominating candidates for appointment, obtain details of and review any interests the candidate may have which conflict or may conflict with the interests of the Company. The Committee shall consider whether despite any such conflict, there are nevertheless grounds for recommending the candidate for appointment and for the Board to authorise the relevant conflict. The Committee shall as part of any proposal to the Board for appointment make recommendations as to the conditions on which any conflicts should be authorised.
- 7.5. Review on an annual basis any Board authorisations, and conditions applicable to such authorisations, in respect of interests that conflict or may conflict with those of the Company. Following such review the Committee shall make recommendations as to whether such authorisations should continue to stand and, if it is recommended they should, the conditions that should apply.
- 7.6. Plan for the orderly succession of new directors to the Board by reviewing on a regular basis the Company's senior management resource and the competencies within that

resource relative to the group's requirements and particular key Board and non-Board executive appointments.

- 7.7. With the assistance of the Chief Executive and Chairman, identify suitable candidates to fill vacancies for executive positions on the Board and to nominate them for the Board's approval.
- 7.8. Recommend to the Board the membership and chairmanship of the Audit, Corporate Responsibility and Remuneration committees.
- 7.9. Nominate suitable candidates for the role of senior independent director.
- 7.10. Review and make recommendations to the Board on the re-appointment of non-executive directors at the conclusion of their specified terms of office having given due regard to their performance and ability to continue to contribute to the Board.
- 7.11. Consider and make recommendations to the Board on matters relating to the continuation in office at any time of any Director including the suspension or termination of service of an executive director as an employee of the Company.

## **8. Authority**

- 8.1. In connection with its duties and at the Company's expense, the Committee is authorised by the Board to obtain legal and other professional advice as required.



## Remuneration Committee - Terms of Reference

(Approved by the Board on 29 April 2003)

(Amended on 23 February 2005, 21 February 2006, 20 February 2008 and 17 February 2010)

*References to “the Committee” shall mean the Remuneration Committee.*

*References to “the Board” shall mean the Board of Directors of BAE SYSTEMS plc.*

### 1. Membership

- 1.1. The Committee shall have at least three members, each of whom shall be appointed by the Board.
- 1.2. All members of the Committee shall be non-executive Directors of the Company who are independent of management and free from any business or other relationship that could interfere with the exercise of their independent judgement.
- 1.3. The Board shall appoint the Committee Chairman.

### 2. Secretary

- 2.1. The Company Secretary shall act as the Secretary to the Committee.

### 3. Quorum

- 3.1. The quorum necessary for the transaction of business shall be two. 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.

### 4. Meetings

- 4.1. The Committee shall meet on not less than five occasions during the year on dates to be agreed at the start of the year and at such other times as the Chairman of the Committee may determine.
- 4.2. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any member thereof.
- 4.3. The Committee may ask any 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.

## **5. Minutes of Meetings**

- 5.1. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 5.2. The Minutes of Committee meetings shall be circulated to all members of the Board after they have been approved by the Committee unless the Chairman of the Committee deems it inappropriate to do so because of the nature of any matter discussed at a particular meeting.

## **6. Annual General Meeting**

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

## **7. Duties**

The Committee shall:

- 7.1. Determine and agree the framework and policy for the Remuneration of the Chairman, executive Directors, members of the Executive Committee, the Company Secretary and other senior executives. No Director or employee shall be involved in any decisions as to his or her own remuneration.
- 7.2. Within the terms of the agreed policy, determine the individual remuneration package of the Chairman and each executive director and each member of the Executive Committee including, where appropriate, bonuses, incentive payments, share based incentive schemes and post retirement benefits.
- 7.3. Determine policy on the terms and conditions to be included in the service agreements for the Chairman, executive Directors, members of the Executive Committee, the Company Secretary and other senior executives, including termination payments and compensation commitments where applicable.
- 7.4. Liaise with the Nominations Committee to ensure that the remuneration of newly appointed executive directors will be within the overall policy agreed by the Committee.
- 7.5. Approve the creation of employee share based incentive schemes and to grant options under the rules of any such schemes and to agree and approve any performance criteria attaching thereto.
- 7.6. Approve any outside directorships for executive Directors.
- 7.7. Determine targets for any bonus or performance related share schemes operated by the Company.

- 7.8. In accordance with legal and regulatory requirements, produce a report on the Directors' remuneration for inclusion in the Company's annual report and accounts.
- 7.9. Liaise with major investors and their representatives to ensure that the Committee is aware of their views and policies concerning executive remuneration and takes account of such views when discharging its duties.

## **8. Authority**

- 8.1. The Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties.
- 8.2. In connection with its duties and at the Company's expense, the Committee is exclusively responsible for appointing and agreeing terms of reference for remuneration consultants and advisers.



## **Banking Committee - Terms of Reference**

(Approved by the Board on 10<sup>th</sup> September 1997)

### **Composition of the Committee**

The composition and quorum of the Banking Committee is either;

- (A) any two Directors of the Company, if the principal amount of the matter under consideration does not exceed the limits set out in sub-paragraph (B) below; or
- (B) any four Directors of the Company, of whom two must be Non-Executive Directors, if the principal amount of the matter under consideration exceeds £100 million in the case of matters falling within paragraph 9(ii) of the Banking Committee's Terms of Reference; or £250 million in the case of matters falling within paragraphs 3, 4 or 9(i) of the Banking Committee's Terms of Reference; or £500 million in the case of matters falling within paragraphs 6, 7, 8 and 10 of the Banking Committee's Terms of Reference.

Except for those matters falling within sub-paragraph (B) above, the Banking Committee may from time to time sub-delegate its authority to further sub-committees as it deems appropriate in accordance with Article 101 of the Company's Articles of Association.

### **Terms of Reference**

The Board has delegated to the Banking Committee responsibility on behalf of the Board for approving and authorising:

1. The opening, closing, variation, supervision, control and administration of Company bank accounts in the United Kingdom and overseas.
2. Any changes to the financial structure of subsidiary companies (other than wholly owned subsidiaries), associate companies, joint ventures and partnerships including, inter alia, any increase in equity or loan capital.
3. The execution and delivery of credit facilities by the Company with banks and financial institutions.
4. The execution and delivery of any agreements or other documents that may be required for the purpose of or in connection with any form of fund raising or credit support by the Company.
5. The execution and delivery of any finance lease agreement to be entered into by the Company.



6. The execution and delivery of any agreements or other documents in the name of the Company that may be required in connection with any other credit, banking or treasury facility including, but not limited to, foreign exchange transactions, interest rate and currency swaps, forward rate agreements, interest rate and currency options and futures and repurchase agreements.
7. The purchase or sale of exchange traded financial instruments from or to the appropriate clearing body established by a recognised exchange.
8. The execution and delivery of any counter indemnities required from the Company in connection with the issue of bonds, guarantees or letters of credit by any bank, surety group or financial institution on behalf of the Company.
9. The execution and delivery of any guarantee or indemnity (whether in respect of any financial obligation or otherwise) required to be given by the Company in respect of or in connection with any of (i) the Company's wholly owned subsidiary companies; or (ii) any other company or entity in which the Company has a shareholding or interest.
10. The execution and delivery of any document, agreement or instrument constituting or evidencing or incidental to, any arrangement for the giving of guarantees, the accepting of recourse or the taking or assuming of any financial or other exposure in connection with the financing, whether directly or indirectly, of sales, whether such sales be directly by the Company or by any business unit or by any subsidiary of the Company or any customer of the Company and whether such financial or other exposure is given, accepted, taken or assumed at the same time as such sale or at any time prior or subsequent thereto.
11. The execution and delivery of, any agreement, document or instrument necessary, appropriate or desirable for or in connection with any matters incidental to any of the above.