

BAE Systems plc Audit and Risk Committee – Terms of Reference

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

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

References to the “Group” shall mean the BAE Systems plc and its subsidiary undertakings or (where required to ensure compliance with the Special Security Agreement between BAE Systems, Inc., BAE Systems plc and the U.S. Department of Defense (as amended from time to time)) BAE Systems plc and its subsidiary undertakings other than BAE Systems, Inc., its subsidiary undertakings and managed businesses.

1. Purpose

Monitoring the effectiveness of the Group’s financial reporting, systems of internal control and risk management, and the integrity of the Group’s external and internal audit processes.

2. Membership

2.1 The Committee shall have at least three members, each of whom shall be appointed by the Board on the recommendation of the Nominations Committee, in consultation with the Committee Chair.

2.2 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.

2.3 At least one member of the Committee shall have recent and relevant financial experience and competence in accounting and/or auditing.

2.4 The Committee as a whole shall have competence relevant to the sector in which the Company operates.

2.5 The Chair of the Board shall not be a member of the Committee.

3. Attendees

3.1 Only members of the Committee have the right to attend Committee meetings.

3.2 Non-executive directors who are not members of the Committee may attend Committee meetings unless agreed otherwise by the Committee. Chair of the Environmental, Social and Governance Committee will likely attend all Committee meetings.

3.3 Others, including external advisers, may attend by invitation. A representative of the Company’s external auditor and the Group Audit Director shall be invited to attend Committee meetings as the Committee Chair sees fit. Each year, the Committee shall have one meeting or part of a meeting with the external auditor and the Group Audit Director without any executive directors or members of management present.

4. Quorum

Subject to the provisions of the Company’s Articles, any two members may form a quorum. A duly convened meeting of the Committee at which a quorum is present shall be authorised to exercise all or any of the powers and discretions vested in or exercisable by the Committee.

Members of the Committee may attend in person or participate by other means, including teleconference or video conference.

5. Committee Chair

The Board shall appoint the Committee Chair.

6. Committee Secretary

The Company Secretary or delegate.

7. Meetings

7.1 The Committee shall meet at least three times a year and otherwise as and when required. The Chair of the Committee shall call a meeting if requested to do so by the Chair of the Board, the Group Chief Executive, the Chief Financial Officer, the external auditor or the Group Audit Director or any other three non-executive directors.

7.2 Unless otherwise agreed, the notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers (where appropriate), shall be forwarded to each member of the Committee, and to each other person invited to attend (as appropriate), not less than five days prior to the date of the meeting.

7.3 Outside of the formal meeting cycle, the Chair shall maintain a dialogue with key individuals involved in the Group's governance including the Chair of the Board, the Group Chief Executive, the Chief Financial Officer, the lead external audit partner and the Group Audit Director.

8. Minutes

8.1 The Secretary shall be required to keep a proper and timely record of meetings of the Committee.

8.2 Minutes of Committee meetings shall be circulated to all members of the Committee and the Board after they have been approved by the Committee unless the Chair of the Committee deems it inappropriate to do so because of the nature of any matter discussed at a particular meeting.

9. Shareholder Engagement

9.1 The Committee shall produce a report on its activities during the year to be included in the Company's annual report and accounts. Such report shall be compliant with applicable legal and regulatory requirements.

9.2 The Chair of the Committee shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities. In addition, and where considered appropriate, the Committee Chair should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility.

10. Duties

The Committee should on behalf of the Board (which retains overall responsibility for internal control and risk management matters) carry out the duties below for the Company, subsidiary undertakings and the Group as a whole, as appropriate.

10.1. Financial and Narrative Reporting

- (a) Monitor the integrity of the financial and narrative statements of the Company, including its annual and half-yearly reports, preliminary announcements and any other formal statements relating to its financial performance (including any other non-routine statements that may be issued by the Company which contain significant financial information).
- (b) Review and challenge, where necessary:
 - (i) the appropriateness of significant accounting policies and any changes to them taking into account the external auditor's view;
 - (ii) whether appropriate estimates and judgements have been made taking into account the external auditor's view;
 - (iii) information presented with the financial statements, including the strategic review and the corporate governance statements relating to audit and risk management;
 - (iv) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (v) the clarity and completeness of disclosures in the financial statements and the context in which statements are made; and
 - (vi) related information presented in the annual report, including the strategic report and the corporate governance statements relating to the audit and to risk management.
- (c) Review the content of the annual report and accounts and report to the Board on whether, taken as a whole, it believes the annual report and accounts:
 - (i) to be fair, balanced and understandable;
 - (ii) provides information necessary for shareholders to assess the Company's position and performance, business model and strategy; and
 - (iii) is consistent with the statement of the Board's responsibility for the document.

10.2. Risk Management and Internal Controls Framework

- (a) Monitor the effectiveness of the Group's risk management and internal controls framework.
- (b) Review the policies and procedures for the identification, assessment, management and reporting of risk.
- (c) Undertake a regular and robust assessment of the emerging and principal risks facing the Group (as identified by the Group's risk assessment processes) and report the Committee's findings and recommendations to the Board.

- (d) Review and monitor the effectiveness of the Group's material controls, including such controls over financial, operational, reporting, fraud and compliance controls.
- (e) Review and recommend to the Board the disclosures for inclusion in the annual and/or half year accounts relating to:
 - (i) the Group's risk management and internal control framework (including, but not limited to, the identification, definition and assessment of principal risks and emerging risks facing the Group and the effectiveness of the Group's material controls); and
 - (ii) the going concern and long-term viability of the Company.
- (f) Oversee the Group's policies and procedures for the receipt, retention and treatment of complaints regarding financial reporting, fraud, risk management and internal controls and assurance, and any other relevant matters.
- (g) Oversee the Group's whistleblowing and ethical conduct processes and monitor the procedures in place to ensure the confidential and anonymous submissions of concerns from the workforce. The Committee shall review these arrangements to ensure they are proportionate and facilitate the independent investigation of such matters.

10.3. External Audit

- (a) Consider and make recommendations to the Board on matters to be put to shareholders, in regards to the appointment, re-appointment, oversight and removal of the external auditor.
- (b) Conduct the tender process for the selection and make recommendations to the Board about the appointment of the external auditor in accordance with applicable legal and regulatory requirements, monitoring that all tendering firms have such access as is necessary to information and individuals during the tendering process.
- (c) Oversee the relationship with the external auditor, including:
 - (i) approving the remuneration of the external auditor, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
 - (ii) approving the external auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) if an external auditor resigns, investigating the issues leading to this and deciding whether any action is required; and
 - (iv) reviewing and monitoring the external auditor's independence and objectivity, its expertise and resources and satisfy itself that there are no relationships between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity.
- (d) Develop and oversee the implementation of the policy on non-audit services by the external auditor, including prior approval of non-audit services by the

Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.

- (e) Assess annually the qualifications, expertise and resources of the external auditor and the quality and effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements including the Financial Reporting Council's *Audit Committees and the External Audit: Minimum Standard*.
- (f) Monitor the external auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the Financial Reporting Council's defined ethical standard, including the guidance on the rotation of audit partner and staff.
- (g) Review and discuss with the external auditor any significant issues arising from any regulatory inspections of the external auditor, to the extent relevant, including the external auditor's response to any identified accounting deficiencies.
- (h) Agree the scope of annual audit to be undertaken by the external auditor and discuss with the external auditor factors that could affect audit quality. Review the findings of such audit of the Company's financial statements including the management letter (or equivalent).
- (i) Review and monitor management's responsiveness to the external auditor's findings and recommendations.
- (j) Review the findings of the audit with the external auditor including any major resolved or unresolved issues that arose during the audit and the level of errors identified.
- (k) Evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee.
- (l) Review any representation letters to be delivered in connection with an audit opinion or review report as may be requested from the external auditor from time to time prior to approval by the Board.
- (m) Meet regularly with the external auditor and, at least once a year, meet with the external auditor without management being present, to discuss the external auditor's remit, any issues arising from the audit and any difficulties encountered during the course of the audit, including restrictions on activities or access to information and any significant disagreements with management.

10.4 Internal Audit

- (a) Determine the requisite qualifications and competencies of the Group Audit Director. Approve the appointment or removal of the Group Audit Director.
- (b) Review the appropriate authority, role, responsibilities, scope, and services of the internal audit function. The Committee shall pay particular attention to the areas of risk, compliance, finance, internal audit and external audit to review where work may be aligned or overlapping and overseeing these relationships to ensure they are coordinated and operating effectively to avoid duplication;

- (c) Monitor and review the effectiveness of the Company's internal audit function, including its resourcing, skills and professional expertise, including obtaining an independent, external quality assessment, at least every five years.
- (d) Review and approve the Internal Audit Charter to ensure it maintains the continued independence and effectiveness of the internal audit function, and its alignment to the needs of the Company and the relevant professional standards.
- (e) Approve an annual programme of internal audit work aligned to the Company's risk management and internal controls framework.
- (f) Receive reports on progress against the internal audit programme and a summary of all reports produced by the internal audit function.
- (g) Review the progress of actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function.
- (h) Ensure a quality assurance and improvement programme for Internal Audit has been established with an annual review of results.
- (i) To the extent provided for by shareholder rights and board representation, review the arrangements in place for the audit of the Group's joint ventures, partnerships and other similar business collaborations, as appropriate.
- (j) Meet with the Group Audit Director at least once a year, without management being present. The Group Audit Director shall have access to the Chair of the Board, the Chair of the Committee and to the other members of the Committee.

11. Reporting to the Board

- 11.1 The Chair of the Committee shall report to the Board on the Committee's proceedings after each meeting. This report shall include:
- (a) the significant issues that it considered in relation to the financial statements and how these were addressed;
 - (b) significant financial reporting, accounting matters and judgements made in connection with the preparation of the financial statements, annual report, half year report and any other formal statements;
 - (c) its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor;
 - (d) the outcome of the external audit, the role of the Committee in the process and how the external audit contributed to the integrity of the financial reporting; and
 - (e) any other issues on which the Board has requested the Committee's opinion.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

12. Other matters

- 12.1 The Committee will give due consideration to the provisions of the UK Corporate Governance Code and all applicable laws and regulations, including the Companies Act 2006 and the requirements of the FCA's UK Listing Rules Sourcebook, Prospectus Regulation Rules Sourcebook and Disclosure and Transparency Rules Sourcebook and any other applicable rules, as appropriate.
- 12.2 Committee members shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 12.3 The Committee shall at least annually review its performance and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.

13. Authority

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 as well as obtain other information which it deems necessary to help fulfil its obligations.

Approved by the Board on 10 December 2025

Effective from 5 January 2026