



Board Charter

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 values and standards and agree policies and processes that shall be used to guide the affairs of the Company. This shall include the setting of clear principles of ethical conduct that apply to all activities undertaken by the Company.

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. 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. He is specifically responsible for the following:

- Chairing Board meetings and setting the agenda for such meetings. In doing so he shall take full account of the issues and concerns of all Directors and encourage their active engagement in Board discussion.
- Promoting the highest standards of corporate governance, including compliance with the Combined Code on Corporate Governance wherever possible.
- 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.
- 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.
- Representing the Company at the highest level and in conjunction with the Chief Executive developing strategic relationships with major customers and political leaders worldwide.

The Role of the Chief Executive

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

He is specifically responsible for the following in respect of his 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.

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 Group Finance Director has failed to resolve or for which such contact is inappropriate.
- Chairing the Nominations Committee when it is considering the Chairman's succession.
- Providing feedback to the Chairman on his own performance as derived from the evaluation exercise undertaken by the Board.

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**

Terms of reference for the above committee 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 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 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 – Board Committees

αβχδ

Audit Committee – Terms of Reference

(Approved by the Board on 10 September 2003)

(Amended on 31 January 2007 & 20 February 2008)

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.

2. Secretary

- 2.1. The Company Secretary 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 four times each year but shall not meet on 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. Annual General Meeting

- 5.1. 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.

6. Duties

6.1. Internal Control and Risk Assessment

- 6.1.1. 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.

6.2. Internal Audit

- 6.2.1. The Committee shall monitor the role and effectiveness of the Company's internal audit function and management response to its findings and recommendations.
- 6.2.2. 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.
- 6.2.3. 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.
- 6.2.4. Approve the appointment or removal of the head of the Company's internal audit function
- 6.2.5. The head of the Company's internal audit function shall have direct access to the Chairman of the Committee.

6.3. Auditors

- 6.3.1. The Committee shall consider and make recommendations to the Board as regards to the appointment and re-appointment of the Company's Auditors, and shall ensure that the senior partner responsible for Auditors' team is changed from time to time.
- 6.3.2. 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;
 - approving fees payable to the Auditors in respect of audit work they undertake, and
 - the extent and nature of any non-audit work that the Auditors may undertake for the Company.
- 6.3.3. The Committee shall review with the Auditors their proposed audit programme and the results of their audit of the Company's financial statements.
- 6.3.4. The Committee shall review the audit representation letters before signature by management.
- 6.3.5. The Committee shall review the management letter (or equivalent) and review and monitor management's responsiveness to the Auditor's findings and recommendations.
- 6.3.6. 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.
- 6.3.7. 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.

6.4. Financial Statements

- 6.4.1. The Committee shall monitor the integrity of the Company's financial statements.
- 6.4.2. The Committee shall review significant financial reporting issues and judgements made in relation to the preparation of the Company's annual and half-yearly reports, interim management statements and any other announcements relating to its financial performance. 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.

- 6.4.3. 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.

6.5. Reporting Responsibilities

- 6.5.1. The Committee Chairman shall report to the Board on the proceedings of the Committee on a regular basis.
- 6.5.2. 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.
- 6.5.3. The Company Secretary shall circulate the minutes of the Committee's meetings to all Directors.

6.6. Other Matters

- 6.6.1. 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.
- 6.6.2. The Committee shall review on a regular basis its own performance and terms of reference to ensure that it is operating effectively.
- 6.6.3. Review the Company's processes for detecting fraud.

7. Authority

- 7.1. The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- 7.2. 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 6 September 2005)

References to “the Committee” shall mean the Corporate Responsibility Committee

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

1. Membership

1.1. Members of the Committee shall be appointed by the Board and shall comprise a Chairman and at least two other members.

1.2. 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.

2. Secretary

2.1. The Company Secretary or his deputy 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 three times a year but shall not meet less than twice each year.

5. Annual General Meeting

5.1. 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.

6. Duties

- 6.1.** The Committee shall assist the Board in overseeing the development of strategy and policy on social, environmental and ethical issues.
- 6.2.** The Committee shall monitor and review the Company's performance in managing social, environmental, ethical and reputational risks. Specifically, the Committee shall be satisfied that appropriate policies, systems and metrics are in place relating to workplace, community, environment and marketplace issues. These shall include, but shall not necessarily be restricted to health and safety, workplace policies, responsible supply chain management, environmental impact, business ethics and compliance with anti-corruption laws and regulation.
- 6.3.** The Committee shall review the annual Corporate Responsibility Report, prior to approval of the Report by the Board.
- 6.4.** The Committee shall oversee and support key stakeholder engagement on social, environmental and ethical issues.
- 6.5.** The Committee Chairman shall report to the Board on the proceedings of the Committee on a regular basis.

7. Authority

- 7.1.** The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- 7.2.** The Committee may, subject to reference to the Board, 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)

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.

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.** 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.
- 7.5.** 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.
- 7.6.** Recommend to the Board the membership and chairmanship of the Audit, Corporate Responsibility and Remuneration committees.
- 7.7.** Nominate suitable candidates for the role of senior independent director.
- 7.8.** 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.

7.9. 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)

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 Chairman of the Board, Chief Executive and Group HR Director shall attend meetings of the Committee as required but should not normally be in attendance when their own remuneration is under discussion.

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.

7. Duties

The Committee shall:

- 7.1. Determine and agreed 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 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.



Non-Executive Directors' Fees Committee - Terms of Reference
(Approved by the Board on 12 January 2005)

References to "the Committee" shall mean the Non-Executive Directors' Fees Committee.

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

1. Membership

1.1. The members of the Committee shall be the Chairman of the Board, Chief Executive, Group Legal Director and Chief Operating Officer – North America.

1.2. The Chairman of the Board shall normally chair the Committee's meeting. In his absence those present shall elect one of their numbers to chair the meeting.

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 three. No meeting shall be quorate unless the Chairman of the Board is present. 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. Minutes of Meetings

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

4.2. Minutes of Committee meetings shall be circulated to all members of the Board.

5. Duties

5.1. The Committee shall from time to time review the fees and allowances payable to those members of the Board who serve in a non-executive capacity (with the

exception of the Chairman) and make changes to such fees as is deemed appropriate.

5.2. In discharging its duties the Committee shall act in accordance with the Guidelines shown in the attached Schedule. The Guidelines may only be amended on the express authority of the Board.

6. Authority

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

Schedule

Guidelines for the Setting of Non-Executive Directors' Fees

- Fees shall be sufficient to attract and retain individuals with the necessary skills, experience and knowledge required to ensure that the Board is able to discharge its duties effectively.
- In setting fees the Committee shall have regard to the amount of time individual non-executive directors are required to devote to their duties and also the scale and complexity of the business and the responsibility involved.
- Fees payable to non-executive Directors shall be paid in cash and shall not be performance related.
- Non-executive Directors shall not participate in the Company's share based incentive schemes or pension scheme.