



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.