



## **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.