

Terms of Reference

BAE SYSTEMS plc Independent Committee

In forming this Independent Committee to study and publicly report upon its policies and processes, the Company seeks to:

- a. garner and implement recommendations which enable it to maintain a leadership position in ethical business practice amongst comparable industry peers;
- b. further enhance the publicly available level of assurance regarding the accuracy of its assertions as to its policy, processes and conduct.

Terms of Reference and programme of work

The terms of reference for the Independent Committee are as follows:

1. The Committee will be formed as an ad hoc committee. Its members will have the background, experience and standing to enable the Committee to perform its work to the highest standards. The Committee will be chaired by one of its members. The Chairmen of the Board's Audit and Corporate Responsibility Committees will liaise closely with the Committee on behalf of the Board.
2. The Committee will report to the Chairman of the Company, acting on behalf of the Company's Board of Directors.
3. The Committee will review and evaluate the Company's (a) policies and processes relating to ethical business conduct generally; (b) internal control procedures; and (c) recordkeeping procedures as each of the foregoing may relate to the Company's ethical business policy generally and its compliance with applicable anti-corruption legislation, including UK law, the US FCPA and relevant international treaty obligations, in particular. The Committee's review and evaluation shall include an assessment of the foregoing as currently implemented in practice.
4. The Committee may, in the furtherance of its duties, request information from the Company to the extent necessary and/or useful to inform itself, and the Company shall cooperate by providing access to Company documentation and personnel to the maximum extent possible.
5. Based on its work, the Committee shall reach a judgment as to how the Company's policies and procedures benchmark against industry standards, whether they are sufficiently robust to ensure compliance with its ethical business policies generally and in particular to detect and prevent violations of anti-corruption laws.
6. To the extent the Committee identifies any opportunities for the improvement of the Company's policies or procedures as implemented, it shall make recommendations concerning remedial actions or changes in policies and/or procedures that in its judgment the Company should adopt, with particular regard to the ongoing roles of the Board's Audit and Corporate Responsibility Committees. The Company is committed to measuring its performance in the relevant areas and would welcome recommendations as to appropriate performance measures and measurement techniques that can be applied by the Company in order to ensure that the Committee's recommendations are implemented appropriately.
7. The Company intends that the Committee should publish its report.
8. The Committee shall be the final judge as to how it performs its duties. It is anticipated that the work may be performed in three stages, as follows:

Phase 1 familiarisation with contract structures typical in the defence sector, the Company's business and organisation and the collection and review of relevant policies and procedures.

Phase 2 review of the actual implementation of the relevant policies and procedures, including, for example, field testing of the efficacy of the procedures.

Phase 3 formulation of conclusions and recommendations and preparation of written report.

9. The Company will pay fees at the rate customarily charged by Committee members for professional services and will reimburse all expenses incurred by Committee members in carrying out their duties. Secretarial and clerical support will also be made available by the Company and appropriate external resource funded as required by the Committee.