

BAE SYSTEMS PLC

ANNUAL GENERAL MEETING

WEDNESDAY 7TH MAY 2014

FIVE, FARNBOROUGH, HAMPSHIRE

FAQS

The Company has produced the following to provide answers to some of the questions most frequently asked about its business.

Q1

Q1: When does the Company propose to re-tender the appointment of its Auditors?

It is the Company's present intention to initiate an audit re-tendering process not later than 2017 prior to the rotation of the current audit engagement partner. The Audit Committee will keep this re-tendering timeframe under review and will use its regular reviews of auditor effectiveness to assess whether an earlier date for a re-tender would be desirable.

Q2

Q2: How does the overall level of reward received by the executive directors reflect the importance of a strong link between remuneration and the achievement of the Company's strategic and business objectives?

The Remuneration Committee applies high levels of rigour and discipline to setting our executive remuneration framework and the associated performance targets for incentives. Remuneration is closely linked to performance and long term shareholder value creation. Executive directors are paid and incentivised in relation to both financial and non-financial targets to ensure the long term sustainability of the business. Those targets include Earnings Per Share performance, Group Cash and Order Intake performance as well as targets for Environment, Safety and Key Strategic Objectives. In 2013, annual bonus rewards for executive directors ranged from 48.9% to 54.6% of the maximum award.

Our aim is to provide a total remuneration package that is fair and transparent and which ensures a strong link between actual remuneration received and the achievement of our strategic and business objectives.

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- Q3** Q3: What are the Company's plans for the Maritime sector following the completion of the Aircraft Carrier programme?
- The Company has always recognised that a significant reduction in workload within our Naval Ships business would follow the peak of activity on the Aircraft Carrier programme, the six Type 45 destroyers and two export contracts. The anticipated Type 26 programme will, in future years, address some of this workload reduction. Prior to full production of Type 26 it is proposed that the manufacture of three Offshore Patrol Vessels will sustain key shipbuilding skills and provide additional capability for the Royal Navy and sustain key shipbuilding skills.
- Following detailed discussions about how best to sustain the long-term capability to deliver complex warships, in November 2013, BAE Systems agreed with the UK Ministry of Defence that Glasgow would be the most effective location for the manufacture of the future Type 26 ships. Consequently and alongside consultation with trade union and employee representatives, the Company proposed to consolidate its shipbuilding operations in Glasgow with possible investments in facilities to create a world-class capability, positioning it to deliver an affordable Type 26 programme for the Royal Navy.
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- Q4** Q4: What are the Company's views on the forthcoming Scottish independence referendum?
- The decision on independence from the UK is a matter for the people of Scotland. However, the Company has significant interests and employees in Scotland, and it is clear that continued union offers greater certainty and stability for our business. In the event that Scotland voted to become independent, we would need to discuss the way forward with the Ministry of Defence and UK government, and work with them to deliver the best solution in those circumstances.
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- Q5** Q5: Why is the Company asking for authority to make political donations?
- It is the Company's policy not to make political donations or incur political expenditure as those expressions are normally understood and no political donations were made in 2013. The Board does, however, consider that it is in the best interests of shareholders to participate in public debate and opinion-forming on matters which affect its business.
- Current UK regulation requires companies to obtain shareholders' authority for donations to political organisations totalling more than £5,000 in any twelve month period, and for any political expenditure, subject to limited exceptions. As the definition of "donation" in this context is very wide and extends to bodies such as those concerned with policy review, law reform and the representation of the business community, it is the Company's practice to seek an annual authority from its shareholders for political expenditure up to £100,000 in a twelve month period so as to avoid inadvertent infringement of the legislation.
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- Q6** Q6: Could you explain how the share buyback works?
- The share buyback programme involves the Company buying shares in the open market. The Company does not approach individual shareholders who may continue to buy or sell shares in the stock market as before. By buying back its own shares, the Company reduces the total number of shares in issue and correspondingly increases the amount of profits attributable to each share that remains in circulation.
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- Q7** Q7: Why is the Annual Report so lengthy? Could you not produce a shorter document?
- Disclosure regulation and best practice has grown substantially in recent years, especially in the areas of narrative business and strategic reporting, key performance indicators, corporate governance reporting, risk management, and corporate responsibility. This, coupled with the significant changes in accounting standards over the last few years, has added to the volume of disclosure. We are a large business and our narrative reporting reflects the breadth of our operational activity. All of this impacts on the length of the Annual Report.
- Latterly the number of hard copy Annual Reports that the Company posts to shareholders has significantly reduced as electronic access has increased, and it would not be cost-effective for us to produce a separate hard copy short-form document.
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