

**BAE SYSTEMS PLC**  
**ANNUAL GENERAL MEETING**  
**WEDNESDAY 2ND MAY 2012**  
**QUEEN ELIZABETH II**  
**CONFERENCE CENTRE, LONDON**

---

**FAQs**

# INTRODUCTION

---

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

---

- Q1**      **How is the Company's strategy adapting to the current economic environment?**
- BAE Systems maintains a well-defined strategy with a defence focus at its core, but with the flexibility to adapt to changes in the business landscape. As markets have evolved, with changing customer priorities, the Group's strategy has also evolved to good effect.
- Recognising the significant changes taking place in its markets, the Group will continue to develop within this strategic framework, driving from its established core defence capabilities to address both the emergent demand for cyber security and intelligence capabilities and the higher growth segments of the electronics markets, as well as building on its successes in international markets.
- 
- Q2**      **How are US and UK defence budget issues affecting the Company?**
- BAE Systems is operating in a difficult business environment as defence budgets come under pressure in its US and UK markets.
- As a major supplier in these markets, the Company is focusing on cost reduction actions to increase competitiveness and affordability for its customers and to improve profit and cash generation for shareholders.
- The development of business across a broad international base of operations provides a robust portfolio of activity and contributes to the resilience of the business.
- In addition the Company is pursuing significant export opportunities – such as a number of campaigns for the Typhoon aircraft - with the current high level of export campaigns in the Group being at a level unprecedented in recent years.
- 
- Q3**      **Why is the Company closing sites and rationalising its business?**
- The Company's early recognition of customer budgetary pressures identified the need for significant cost reduction and efficiency actions being taken.
- These actions have resulted in net headcount reduction of approximately 22,000 (including contractors) in the past three years. This cost reduction programme will enhance competitiveness, deliver further improved value for customers, and be of sustained benefit to the Group's performance.
- 
- Q4**      **How is the Company looking to sustain its UK engineering capability?**
- BAE Systems' Skills 2020 programme was launched in July 2010 and encompasses all our education, skills and training-related activity in the UK. Skills 2020 will ensure the Company has the skills to compete successfully over the next decade and beyond.
- In the UK alone we invested £83m in 2011 in education, training and skills related activities. This includes funding our apprentice and graduate training programmes, schools liaison and university Research and Development (R&D) programmes.
- At any one time the Company has around 1,000 apprentices in training, with 95% in engineering training. The Company was awarded an Ofsted Grade 1 – outstanding for its apprentice training in 2010 and won the National Apprentice Award's Macro Employer of the Year award in June 2011.
- In 2012 we are recruiting 306 graduates and 281 apprentices across our UK business.
-

- 
- Q5** **Why is the share price so low?** There are many factors that influence a company's share price. One significant factor is concern in the investment community over uncertainty as to the levels of government defence spending in the US and the UK in the short to medium term.
- 
- Q6** **Is the current level of dividend sustainable?** The Board is recommending a final dividend of 11.3p per share, bringing the total dividend for 2011 to 18.8p per share, an increase of 7.4% over the prior year. The total dividend for 2011 is covered 2.1 times by underlying earnings from continuing operations excluding the R&D tax benefit.
- This is consistent with the Group's policy of growing the dividend whilst maintaining a long term sustainable cover of approximately two times.
- 
- Q7** **Why is the Company requesting authority for another share buyback programme?** The Company has routinely sought this annual authority providing the flexibility to manage its issued share capital.
- A share buyback or share repurchase is where a company buys its own shares to reduce the number of shares traded in the market. This benefits shareholders by increasing the proportion of profits, or earnings, attributable to each remaining share in circulation.
- A further repurchase of shares remains an option where the balance sheet permits.
- 
- Q8** **What progress is the Company making in its expansion into India?** BAE Systems continues to develop its position in the Indian market. Defence spending in India is expected to grow substantially and we are investing in our presence in the country.
- The supply of Hawk aircraft continues with local assembly by Hindustan Aeronautics. We have established a land systems joint venture with Mahindra & Mahindra which has significant armoured vehicle and artillery opportunities.
- Although not selected as the lowest priced compliant bid, the programme has not yet been awarded and we continue to support the Typhoon bid to meet the Indian requirement for a Medium Multi-Role Combat Aircraft.
- 
- Q9** **What factors does the Company consider when determining remuneration for the executive directors?** Our executive remuneration strategy is designed to attract, retain and motivate the highest calibre of executives in a competitive global market.
- Executive directors' remuneration is set by the Remuneration Committee. The remuneration strategy incentivises and rewards executives to deliver their contribution to the achievement of the Group's strategy through the combination of short-term incentives targeted at Group performance, business performance, personal performance and leadership behaviours, and long-term incentives targeted at Group performance.
- 
- Q10** **How do you ensure that employees behave ethically in their business dealings?** Our global Code of Conduct sets out the standards of business conduct we expect from employees in everything they do, wherever they operate. It includes practical guidance to help employees deal with important ethical issues and where to ask for help. Regular training on the Code and our ethical standards is helping us embed a culture of responsible business conduct throughout the Company. We encourage employees to speak up about any concerns they may have, and any concerns they do not feel comfortable talking about to their managers can be reported confidentially via our Ethics Helpline.
-

---

## Q11

**Why have I recently been contacted by people offering to buy my BAE Systems' shares at a price that is 3-4 times more than the current market value?**

Unfortunately, "boiler room" scams have affected a large number of listed companies in the last few years. These "scammers" target retail shareholders, cold-calling them by telephone, and typically:

- Offer the shareholder the opportunity to buy shares which often turn out to be worthless or non-existent;
- or
- Advise the shareholder that the company in which he/she holds shares is about to be taken over, and offer to buy their shares in that company at an inflated price, which may result in shareholders disclosing personal information, surrendering share certificates, or making advance payments to "secure the deal".

The issue is being tackled by the Financial Services Authority, however, such frauds are often perpetrated from overseas.

Awareness is the main way we can combat such scams and as soon as BAE Systems became aware of the recent increase in scam activity, it initiated a mailing of over 200,000 shareholders and current or former employees, many of whom are shareholders.

---

## Q12

**Would the retention of Airbus have left the Company with a more balanced portfolio?**

As a former 20% shareholder BAE Systems did not have full control over the business at a time when significant investment was required in the launch of new and upgraded products.

---

## Q13

**Why do you not state the ages of the directors in the Annual Report?**

We do not state the ages of the directors in the biography section of the Annual Report (or the Notice of Meeting) as we believe that information on the individual director's skills and experience is more relevant to shareholders than the director's age when assessing the capability and suitability of people to serve on the Board.

The ages of the executive directors are given in Table D of the Remuneration Report which relates to post-retirement benefits as this information is relevant when considering executive directors' pension arrangements.