

**This document is important and
requires your immediate attention.**

Notice of meeting

BAE Systems plc

Annual General Meeting 2006

The Queen Elizabeth II Conference Centre

London SW1P 3EE

4 May 2006 at 11.00 am

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Notice of meeting

Chairman's letter

Dear Shareholder

Annual General Meeting — 4 May 2006

I am delighted to invite you to attend BAE Systems plc's Annual General Meeting on 4 May 2006 at the Queen Elizabeth II Conference Centre, London.

This booklet includes the formal Notice of Meeting in which we have set out the resolutions that shareholders are being asked to consider and vote on. These resolutions are a very important part of the governance of the Company and I urge all shareholders to vote, whether they are able to attend the meeting or not. **The Board supports all of the resolutions to be put to the AGM.**

Michael Portillo has advised us that he will not be seeking re-election at this year's AGM and will therefore retire from the Board immediately after the meeting. BAE Systems has truly benefited from Mr Portillo's knowledge and experience and I thank him for the valuable contribution he has made during his time on the Board. The other Board members join me in wishing him well in his new career as a journalist and broadcaster.

It is good practice for companies to take a poll on all resolutions put to shareholders. This allows all shareholders to have their votes recognised whether or not they are able to attend the meeting. We have used such polls for a number of years and have enclosed a Proxy/Poll card for you. How you use this depends on whether you are attending the meeting or not:

If you will be attending the AGM – bring the card with you and at the end of the meeting use it as a poll card to vote on the resolutions.

If you are unable to attend the meeting – you can cast your votes by proxy by completing and posting the card. As an alternative, you can vote electronically by logging onto www.sharevote.co.uk and using the Reference Number, Card ID and Account Number given on your Proxy/Poll Card. Full details on how to vote can be found on the card.

The results of the voting on the resolutions will be posted on the Company's website after the meeting.

You will also find enclosed a copy of the Annual Report or a summarised version of this, the Annual Review. Both of these documents can be found on our website, www.baesystems.com, where you can also find out more information on the Company including our Corporate Responsibility Report.

I look forward to seeing many of you at the meeting in May.

Yours sincerely



Dick Oliver
Chairman
30 March 2006

Notice of Annual General Meeting

To BAE Systems plc Ordinary Shareholders and,
for information only, to holders of Convertible Preference Shares.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of BAE Systems plc will be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Thursday 4 May 2006 at 11.00 am for the purpose of transacting the following business:

To consider, and if thought fit, to pass the following Resolutions which will be proposed as ORDINARY RESOLUTIONS:

RESOLUTION 1 – Receipt of the report and accounts

THAT the audited accounts of the Company for the year ended 31 December 2005 and the Directors' Reports and Auditors' Report thereon now laid before this meeting be and they are hereby received.

RESOLUTION 2 – Approval of the directors' remuneration report

THAT the Directors' Remuneration Report for the year ended 31 December 2005 be and is hereby approved.

RESOLUTION 3 – Authorisation and payment of the final dividend

THAT the final dividend for the year ended 31 December 2005 of 6.3 pence per ordinary share be and is hereby declared payable on 1 June 2006 to Ordinary Shareholders whose names appeared on the Register of Members at the close of business on 21 April 2006.

RESOLUTION 4 – Re-election of Director

THAT Susan Birley retiring pursuant to Article 85 be and is hereby re-elected a Director of the Company.

RESOLUTION 5 – Re-election of Director

THAT Christopher Geoghegan retiring pursuant to Article 85 be and is hereby re-elected a Director of the Company.

RESOLUTION 6 – Re-election of Director

THAT Michael Lester retiring pursuant to Article 85 be and is hereby re-elected a Director of the Company.

RESOLUTION 7 – Election of Director

THAT Philip Carroll retiring pursuant to Article 91 be and is hereby elected a Director of the Company.

RESOLUTION 8 – Election of Director

THAT Roberto Quarta retiring pursuant to Article 91 be and is hereby elected a Director of the Company.

RESOLUTION 9 – Election of Director

THAT Peter Weinberg retiring pursuant to Article 91 be and is hereby elected a Director of the Company.

RESOLUTION 10 – Re-appointment of Auditors

THAT KPMG Audit Plc be and are hereby reappointed Auditors of the Company to hold office until the next General Meeting at which accounts are laid before the Company.

RESOLUTION 11 – Authority to agree Auditors' remuneration

THAT the Audit Committee of the Board of Directors be and is hereby authorised to agree the remuneration of the Auditors.

RESOLUTION 12 – BAE Systems Performance Share Plan 2006

THAT the rules of the BAE Systems Performance Share Plan 2006 (the "PSP"), the principal terms of which are summarised in the Appendix to the notice convening this meeting and a copy of which is produced to this meeting and, for the purposes of identification, signed by the Chairman, be approved and the Directors be authorised to:

- make such modifications to the PSP as they may consider appropriate to take account of the requirements of the UK Listing Authority and best practice, and to adopt the PSP as so modified and to do all such acts and things as they may consider appropriate to implement the PSP; and
- establish further plans based on the PSP but modified to permit participation by employees of any joint ventures of the Company who are not eligible to participate in the PSP and/or to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the PSP

RESOLUTION 13 – BAE SYSTEMS Share Matching Plan

THAT the rules of the BAE Systems Share Matching Plan (the "SMP"), the principal terms of which are summarised in the Appendix to the notice convening this meeting and a copy of which is produced to this

meeting and, for the purposes of identification, signed by the Chairman, be approved and the Directors be authorised to:

- make such modifications to the SMP as they may consider appropriate to take account of the requirements of the UK Listing Authority and best practice and to adopt the SMP as so modified and to do all such acts and things as they may consider appropriate to implement the SMP; and
- establish further plans based on the SMP but modified to permit participation by employees of any joint ventures of the Company who are not eligible to participate in the SMP and/or to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the SMP

The following resolutions numbered 14-19 authorise the Company and certain of its subsidiaries to incur political expenditure up to specific limits.

RESOLUTION 14 – The Company

THAT the Company be and is hereby authorised:

- to make Donations to EU Political Organisations; and
- to incur EU Political Expenditure,

Provided that:

- the authority conferred by this resolution shall commence on the date on which it is passed and expire on 4 August 2007 or, if earlier, the day before the Company's Annual General Meeting in 2007, being the period determined by the Directors of the Company;
- The aggregate amount of such donations and expenditure made by the Company and any other company authorised by a resolution of the shareholders of the Company to make such donations and expenditure shall not exceed £100,000; and
- in this resolution the expressions "Donations", "EU Political Organisations" and "EU Political Expenditure" have the meanings set out in Part XA of the Companies Act 1985 (as amended by the

Political Parties, Elections and Referendums Act 2000).

RESOLUTION 15 – BAE Systems Marine Limited

THAT BAE Systems Marine Limited be and is hereby authorised:

- (i) to make Donations to EU Political Organisations; and
- (ii) to incur EU Political Expenditure,

Provided that:

- (a) the authority conferred by this resolution shall commence on the date on which it is passed and expire on 4 August 2007 or, if earlier, the day before the Company's Annual General Meeting in 2007, being the period determined by the Directors of the Company;
- (b) the aggregate amount of such donations and expenditure made by BAE Systems Marine Limited and any other company authorised by a resolution of the shareholders of the Company to make such donations and expenditure shall not exceed £100,000; and
- (c) in this resolution the expressions "Donations", "EU Political Organisations" and "EU Political Expenditure" have the meanings set out in Part XA of the Companies Act 1985 (as amended by the Political Parties, Elections and Referendums Act 2000).

RESOLUTION 16 – BAE Systems (Operations) Limited

THAT BAE Systems (Operations) Limited be and is hereby authorised to make Donations to EU Political Organisations and to incur EU Political Expenditure on the terms set out in Resolution 15 in the Notice of the Annual General Meeting dated 30 March 2006, replacing the words "BAE Systems Marine Limited" with "BAE Systems (Operations) Limited".

RESOLUTION 17 – BAE Systems Land Systems (Munitions and Ordnance) Limited

THAT BAE Systems Land Systems (Munitions and Ordnance) Limited be and is hereby authorised to make Donations to EU Political Organisations and to incur EU Political Expenditure on the terms set out in Resolution 15 in the Notice of the Annual

General Meeting dated 30 March 2006, replacing the words "BAE Systems Marine Limited" with "BAE Systems Land Systems (Munitions and Ordnance) Limited".

RESOLUTION 18 – BAE Systems Land Systems (Weapons and Vehicles) Limited

THAT BAE Systems Land Systems (Weapons and Vehicles) Limited be and is hereby authorised to make Donations to EU Political Organisations and to incur EU Political Expenditure on the terms set out in Resolution 15 in the Notice of the Annual General Meeting dated 30 March 2006, replacing the words "BAE Systems Marine Limited" with "BAE Systems Land Systems (Weapons and Vehicles) Limited".

RESOLUTION 19 – BAE Systems Hägglunds AB

THAT BAE Systems Hägglunds AB be and is hereby authorised to make Donations to EU Political Organisations and to incur EU Political Expenditure on the terms set out in Resolution 15 in the Notice of the Annual General Meeting dated 30 March 2006, replacing the words "BAE Systems Marine Limited" with "BAE Systems Hägglunds AB".

RESOLUTION 20 – Authority to allot new shares

THAT the authority conferred on the Directors by Article 12 (B)(i) of the Articles of Association of the Company be and is hereby renewed for the period ending on 3 August 2007 or, if earlier, on the day before the Company's Annual General Meeting in 2007 and that for such period the Section 80 Amount shall be £26,829,626.

To consider, and if thought fit, to pass the following Resolutions which will be proposed as SPECIAL RESOLUTIONS:

RESOLUTION 21 – Disapplication of pre-emption rights

THAT the power conferred on the Directors by Articles 12(B) (ii) of the Articles of Association of the Company be and is hereby renewed for the period ending on 3 August 2007 or, if earlier, on the day before the Company's Annual General Meeting in 2007 and that for the period the Section 89 amount shall be £4,024,846.

RESOLUTION 22 – Authority to purchase own shares

THAT the Company be and is hereby unconditionally and generally authorised for the purposes of Section 166 of the Companies Act 1985 to make market purchases, as defined in Section 163 of that Act, of ordinary shares of 2.5p each in the capital of the Company provided that:

- (i) the maximum number of ordinary shares that may be purchased is 321,987,720;
- (ii) the minimum price which may be paid for each ordinary share is 2.5p;
- (iii) the maximum price that may be paid for each ordinary share is an amount equal to 105 per cent. of the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary share is contracted to be purchased; and
- (iv) this authority shall expire on the conclusion of the Annual General Meeting of the Company held in 2007 or, if earlier, 4 August 2007 (except in relation to the purchase of ordinary shares the contract for which was concluded before the expiry of such authority and which may be executed wholly or partly after such expiry) unless such authority is renewed prior to such time.

By Order of the Board

David Parkes
Company Secretary

30 March 2006

6 Carlton Gardens
London SW1Y 5AD

Notice of Annual General Meeting

Proxies

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. A form of proxy is enclosed. Subject to the provisions for proxies and corporate representatives, only registered holders of ordinary shares of the Company are entitled to attend and vote at the meeting.

The form of proxy should be completed, signed and returned to the Registrar, Lloyds TSB Registrars, in accordance with the instructions on the form of proxy so as to be received no later than 48 hours before the start of the meeting. Alternatively, the appointment of a proxy may be registered electronically by logging onto www.sharevote.co.uk and using the Reference Number, Card ID and Account Number stated on the form of proxy.

Electronic proxy appointment through CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 4 May 2006 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether

it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s)), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Appendix

SUMMARY OF THE PRINCIPAL TERMS OF THE BAE SYSTEMS PERFORMANCE SHARE PLAN 2006 (“PSP”) AND THE BAE SYSTEMS SHARE MATCHING PLAN (the “SMP”) (together the “Plans”)

General

The Plans are designed to deliver free shares to executives subject to the satisfaction of performance conditions and the executives remaining in employment.

The Remuneration Committee of the Board of Directors (the “Committee”) will supervise the operation of the Plans.

Eligibility

Any employee (including an executive director) of the Company and any of its subsidiaries (the “Group”) will be eligible to participate in the Plans at the discretion of the Committee.

Grant of awards

The Committee may grant an award under the PSP in the form of a conditional award of ordinary shares in the Company (“Shares”) or a nil (or nominal) cost option. The Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash although it does not currently intend to do so unless it is appropriate for overseas jurisdictions.

Under the SMP, the Committee may invite or require a selected employee to acquire Shares (“Investment Shares”) up to a maximum amount which will not exceed the post-tax amount of any discretionary annual bonus he received for the previous financial year. The Committee will then grant an award under the SMP over a number of Shares determined by reference to the number of Investment Shares acquired. Awards granted under the SMP will be in the form of conditional awards of Shares. The Committee may decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash although it does not currently intend to do so unless it is appropriate for overseas jurisdictions.

The Committee may grant awards within six weeks of the approval of the Plans by shareholders and then within six weeks following the Company’s announcement of its results for any period. The Committee may also grant awards at any other time when there are exceptional circumstances which the Committee considers justifies the granting of awards.

Awards may not be granted more than 10 years after the approval of the Plans by shareholders.

Awards are not transferable, except on death and are not pensionable.

Individual limits

The maximum market value of Shares over which PSP awards may be granted to any person in any financial year will not exceed 200 per cent. of their annual rate of base salary. It is currently intended that the level of initial PSP award to be made to the Chief Executive of the Company will be 150 per cent. of salary while the level of initial PSP awards to be made to other executives will not exceed 100 per cent. of salary.

The maximum number of Shares over which a SMP award may be granted will be equal to the number of Investment Shares a participant could have acquired with the gross amount of income used to acquire Investment Shares.

Vesting of awards

PSP awards will normally vest in three equal tranches on the third, fourth and fifth anniversaries of grant respectively. PSP awards in the form of options will normally be exercisable from vesting to the seventh anniversary of grant. SMP awards will normally vest on the third anniversary of grant.

Awards will only vest to the extent that the applicable performance conditions (see below) have been satisfied and, normally, only if a participant is still employed in the Group. In addition, a SMP award will only vest to the extent that a participant’s Investment Shares have been retained.

Leaving employment

As a general rule, an award will lapse upon a participant ceasing to hold employment or office in the Group. However, if a participant ceases to hold employment or office in the Group because of his death, a sale or transfer of his employing company or business out of the Group, his moving to a joint venture company or for any other reason at the discretion of the Committee then his award will normally vest on cessation of his employment. If a participant ceases to hold employment or office in the Group because of his injury, disability, redundancy, retirement or for any other reason at the discretion of the Committee then his award will normally continue to the time when vesting would have initially occurred if he had remained an employee or office holder. The extent to which an award of such a participant will vest

depend upon: (i) the extent to which the performance conditions have been satisfied at the time of vesting; and (ii) pro-rating of the award to reflect the number of complete months between the date of grant and the time of leaving employment or office relative to 36 months (unless the Committee decides it would be inappropriate to pro rate in the particular circumstances).

Where a PSP award vests as a result of a participant leaving employment or office for one of the reasons described in this paragraph then it will vest on a single occasion only, rather than in three annual tranches, and if the award is an option it will be exercisable for six months from vesting.

Corporate events

If the Company is taken over or is involved in a scheme of arrangement (not being an internal corporate reorganisation or a merger) all awards will vest early. The extent to which an award will vest will depend upon: (i) the extent to which the performance conditions have, in the opinion of the Committee, been satisfied up to the date of vesting; and (ii) pro-rating of the award to reflect the number of complete months between the date of grant and the time of vesting relative to 36 months (unless the Committee decides it would be inappropriate to pro rate in the particular circumstances).

In the event of an internal corporate reorganisation or a merger, the Committee may decide that awards will be replaced by equivalent new awards over shares in a new holding company, otherwise awards will vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Shares to a material extent, then the Committee may determine that awards will vest on the basis that would apply in the case of a takeover.

If there is a voluntary winding-up of the Company then awards will vest on the same basis that would apply in the case of a takeover.

Performance conditions

All awards will be subject to performance conditions set by the Committee.

Performance conditions for the PSP awards

For executive directors of the Company, the performance conditions which will apply to the initial PSP awards will be the same as those which have been applied to awards

made under the Company's existing performance share plan. These are described below.

There are two performance conditions which will apply to the initial awards to be made to the executive directors. One of those performance conditions is a measure of the Company's total shareholder return (TSR) performance over a single three year performance period against companies drawn from a sectoral comparator group. The current members of that group are Boeing, Cobham, Dassault Aviation, EADS, Embraer PN, Finmeccanica, General Dynamics, GKN, Goodrich, Honeywell International, Lockheed Martin, Northrop Grumman, Raytheon, Rockwell Collins, Rolls-Royce, Smiths Group, Thales and United Technologies. Subject to the achievement of the second performance condition described below, an award will vest in accordance with Table 1 shown below.

The performance period will commence on the financial quarter date preceding the date when awards are granted. TSR will be averaged over three months prior to the start and end of the performance period.

The second performance condition applying to awards made to executive directors of the Company is that the Committee must be satisfied that there has been a sustained improvement in the Company's underlying financial performance over the performance period. In taking a view of a sustained improvement in the Company's underlying financial performance, the Committee may consider (but not exclusively) the following financial metrics: net debt/cash; EBITA; order book; turnover; risk and underlying project performance.

For awards made to executives who are not directors of the Company, the Committee may decide that up to one half of their awards will be subject to a performance condition based on internal measures with the balance of those awards being subject to the TSR condition described above.

Performance condition for the SMP awards

The performance condition which will apply to the initial SMP awards will be the same as that which has been applied to options granted under the Company's executive share option plan. This is described below.

The performance condition will be a measure of the growth in the Company's earnings per share (EPS) over a single three year performance period commencing on the first day of the financial year in which the award is granted.

The extent to which an award will vest will be determined by reference to the Company's EPS performance against the Retail Prices Index (RPI) in accordance with Table 2 shown below.

Performance conditions – general

The Committee intends to review the performance conditions (including the TSR comparator group) each year to ensure that they remain suitable for future awards. The Committee can set different performance conditions from those described above for future awards provided that, in the reasonable opinion of the Committee, the new targets are not materially less challenging than those originally set.

The Committee may vary any performance condition applying to existing awards if an event occurs which causes the Committee to consider it appropriate to amend the condition provided the Committee reasonably considers that the varied condition is not materially less difficult to satisfy than the original condition would have been but for the event in question.

Participants' rights

Awards will not confer any shareholder rights until they have vested and the participants have received their Shares.

In the case of SMP awards, participants will receive a payment (in cash and/or Shares) on or shortly following the vesting of their awards, of an amount equivalent to the dividends that would have been paid on the

Shares in respect of which the awards vest during the period between the grant and vesting of the awards. The Committee also has a discretion to adopt this approach for PSP awards.

Overall plan limits

The Plans may operate over new issue Shares, treasury Shares or Shares purchased in the market.

In any ten year period the Company may not issue (or have the possibility to issue) more than:

- 10 per cent. of the issued ordinary share capital of the Company under the Plans and any other employee share plan adopted by the Company;
- 5 per cent. of the issued ordinary share capital of the Company under the Plans and any other executive share plan adopted by the Company.

Treasury Shares will count as new issue Shares for the purposes of these limits unless institutional investor bodies decide that they need not count.

Rights attaching to Shares

Any Shares allotted when an award vests or is exercised will rank equally with Shares then in issue except for rights arising by reference to a record date prior to their allotment.

Variation of capital

In the event of any variation of share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Shares, the Committee may make such adjustment as it considers appropriate to the number of Shares subject to an award and/or to the exercise price payable (if any).

Alterations to the Plans

The Committee may, at any time, amend the provisions of the Plans in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of

Table 1 – Performance Share Plan

Ranking of Company's TSR compared with the sectoral comparator group over the performance period	Percentage of award which vests
Below Median	0%
Median	25%
Upper Quintile (top 20%)	100%
Between Median and Upper Quintile	Pro rata on a straight line basis between 25% and 100%

Table 2 – Share Matching Plan

Company's average annual EPS performance in excess of RPI	Proportion of award which vests
Less than 3%	All lapse
3% or more but less than 4%	One-third
4% or more but less than 5%	Two-thirds
5% or more	All vest

treasury Shares, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash to be acquired and the adjustment of awards.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plans, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group.

Plans for employees of joint ventures and/or employees outside the UK

The resolutions being put to shareholders to approve the Plans will permit the Board of Directors of the Company to establish further plans based on the Plans but modified to allow participation by employees of joint ventures of the Company who are not permitted to participate in the Plans and/or to take account of overseas tax, exchange control or securities laws. Any Shares made available under such further plans will be treated as counting against the limits on individual and overall participation in the Plans.

Notes on the resolutions

1. Notes on the Resolutions

1.1 Resolution 2 – Approval of the Directors' Remuneration Report

The Directors' Remuneration Report is required to be laid before the shareholders in general meeting and voted on. The report can be found on pages 57 to 74 of the Company's Annual Report 2005 and is summarised on pages 30 to 32 of the Annual Review 2005.

1.2 Resolutions 4, 5 and 6 – Directors standing for re-election

The Company's Articles of Association require that once every three years Directors seek re-election to the Board at an Annual General Meeting. The Chairman has confirmed that the individuals seeking re-election continue to be effective members of the Board and demonstrate commitment to their responsibilities. This is supported by the performance evaluation that the Board undertook recently. The biographies of those Directors retiring at the Annual General Meeting who wish to seek re-election are as follows:

Professor Susan Birley

Sue Birley, 62, was formerly Professor of Entrepreneurship at Imperial College, University of London. Previous to that she held academic positions at INSEAD, Cranfield Institute of Technology and London Business School. She was appointed to the Board in 2000 and is a former non-executive director of National Westminster Bank plc.

Professor Birley chairs the Remuneration Committee and is also a member of the Corporate Responsibility Committee.

Christopher Geoghegan

Chris Geoghegan, 51, was appointed to the Board in 2002 as Chief Operating Officer and is responsible for the Insyte, Integrated Systems & Partnerships, Regional Aircraft and Shared Services businesses. He joined the Company in 1973 and has held a number of general management positions in the Company's commercial aircraft business. In 1990 he was appointed Managing Director of the division which became British Aerospace Airbus Limited. He was appointed a member of the Airbus Executive Board in 1994 and joined Airbus Industrie in 1998 to assist in the transition of Airbus GIE into a single company. In 2000 he was appointed Group Managing Director of the Avionics Group following the BAe/MES merger. He is President of the Society of British Aerospace Companies.

Michael Lester

Michael Lester, 66, joined The General Electric Company, p.l.c. (GEC) in 1980 as an Associate Director and Director of Legal Affairs having previously been a solicitor in private practice. He joined the Board of GEC in 1983 and was appointed Vice Chairman in 1994. Following completion of the BAe/MES merger in 1999, he joined the Board as Group Legal Director. He is a non-executive director of Premier Farnell plc.

Mr Lester is a member of the Non-Executive Directors' Fees Committee.

The Rt Hon Michael Portillo is retiring, pursuant to Article 85 of the Company's Articles of Association, at the conclusion of the 2006 Annual General Meeting and is not seeking re-election.

1.3 Resolutions 7, 8 and 9 – Election of Directors

The Board reported to shareholders last year that it was looking to ensure that the composition of the Board reflected the increasing transatlantic nature of the Company's business. During 2005 Phil Carroll, Roberto Quarta and Peter Weinberg were appointed to the Board all of whom are US citizens and whose experience and skills are relevant to BAE Systems and the development of its strategic goals.

The Company's Articles of Association require that all Directors appointed to the Board seek election at the Annual General Meeting immediately following their appointment. Following the appointment of Peter Weinberg to the Board on 16 June 2005, and the appointment of Phil Carroll and Roberto Quarta to the Board on 7 September 2005, each of these three directors is required to seek election at this year's meeting.

The Board recommends that shareholders vote in favour of the election to the Board of Messrs Carroll, Quarta and Weinberg.

Biographical details of these three Directors are as follows:

Philip Carroll

Phil Carroll, 68, is a former chairman and chief executive of Fluor Corporation and a former president and chief executive of Shell Oil Company Inc. He was appointed by the US Department of Defense in 2003 to serve as the first Senior Adviser to the Iraqi Ministry of

Oil. He is a former non-executive director of Scottish Power plc.

Mr Carroll is a member of the Corporate Responsibility Committee and the Nominations Committee.

Roberto Quarta

Roberto Quarta, 56, is chairman (and was formerly chief executive) of BBA Group plc and, as a partner of the private equity firm Clayton Dubilier & Rice, also serves as chairman of Rexel SA and Italtel. He was previously an executive director of BTR plc and a non-executive director of PowerGen plc and Equant NV.

Mr Quarta is a member of the Audit Committee and the Remuneration Committee.

Peter Weinberg

Peter Weinberg, 48, was previously chief executive officer of Goldman Sachs International and co-head of the Partnership Committee; prior to that he was co-head of the bank's Global Investment Banking Division. He left Goldman Sachs in 2006 having been a partner since 1992.

Mr Weinberg chairs the Corporate Responsibility Committee and is a member of the Remuneration Committee.

1.4 Resolutions 12 and 13 – Employee Share Plans

The Directors propose that two new employee share plans are approved by shareholders. The principal terms of these plans, the Performance Share Plan and the Share Matching Plan, are summarised in the Appendix on pages 5 to 7.

1.5 Resolutions 14 to 19 – Authority to incur political expenditure

The Political Parties, Elections and Referendums Act 2000 (the Act), amongst other things, prohibits the Company and its subsidiaries making donations to EU Political Organisations (as defined in the Act) of more than £5,000 in any twelve month period unless they have been authorised to make donations by the Company's shareholders. The BAE Systems Group has no intention of making donations to political parties. However, the Act defines EU Political Organisations widely. It includes organisations which carry on activities which are capable of being reasonably regarded as intended to affect public support for a political party in any EU Member State or to

influence voters in relation to any referendum in any EU Member State. As a result, it is possible that the definition may include bodies, such as those concerned with policy review and law reform or with the representation of the business community or sections of it, which the Group may see benefit in supporting.

The Directors believe that it is in the interests of shareholders for the Group to be permitted to support such organisations directly or indirectly. Accordingly, six resolutions relating to the Company and its principal EU subsidiaries are being put to shareholders for this purpose. The resolutions authorise donations and political expenditure up to an aggregate maximum of £100,000 in the period up to the Company's Annual General Meeting in 2007. As required by the Act, the resolutions are in general terms and do not purport to authorise particular donations or expenditure.

The Company did not make any political donations in 2005.

1.6 Resolutions 20 and 21 – Authority to issue shares

The Directors wish to renew the Company's authority to allot unissued shares in the share capital of the Company. Although the Directors have no present intention of exercising this authority (other than for the conversion into ordinary shares of existing Convertible Preference Shares), it is considered prudent to maintain the flexibility that this authority provides. This resolution authorises the Directors to allot relevant securities up to an aggregate nominal value of £26,829,626 (the amount shown as the Section 80 Amount in Resolution 20) during the 15 months from the date of the Annual General Meeting. This amounts to 33.33 per cent. of the issued ordinary share capital of the Company, and 18.25 per cent. of the total issued share capital as at the date of this Notice. No treasury shares are held by the Company. It is also proposed to renew, for the same 15 month period, the authority of the Directors to allot for cash equity securities without first being required to offer such securities to existing shareholders (other than in connection with a rights issue). The authority relates to up to £4,024,846 of

nominal capital (the amount shown as the section 89 Amount in Resolution 21), being approximately 5 per cent. of the issued ordinary share capital of the Company and 2.74 per cent. of the total issued share capital, as at the date of this Notice. This authority will also apply to the sale of any shares held in treasury by the Company, should Resolution 22 be passed.

1.7 Resolution 22 – Purchase of shares

The Directors are committed to managing the Company's capital effectively and consider that the purchase by the Company of its ordinary shares may in certain circumstances be advantageous to shareholders. They believe that, in common with many other listed companies, the Company should obtain from shareholders a general authority to make market purchases on the London Stock Exchange. The authority should be on the basis that, in accordance with the UK Listing Authority's requirements, the maximum price for ordinary shares purchased in the market shall not exceed an amount equal to 105 per cent. of the average of the middle market quotations taken from the London Stock Exchange Daily Official List for the five business days before the announcement is made. The minimum price per ordinary share shall not be less than 2.5p, being the par value of an ordinary share. The number of ordinary shares which may be acquired pursuant to the authority is up to an aggregate of 321,987,720 ordinary shares, this being approximately 10 per cent. of the issued ordinary share capital of the Company. There are currently outstanding 87,216,846 options to subscribe for shares, representing 2.71 per cent. of the Company's issued ordinary share capital. If the authority was exercised in full, the options would represent 3.01 per cent. of the Company's issued ordinary share capital. The Company will only purchase ordinary shares if the Directors believe that it is in the shareholders' best interests and will increase earnings per share. Although the Directors have no plans to use the authority at present, this position will be kept under review.

2. Documents for inspection

The Register of Directors' Interests in the share capital of the Company, copies of the executive Directors' service contracts, the

non-executive Directors' letters of appointment, and the Directors' Indemnities, as well as copies of the rules of the Performance Share Plan and Share Matching Plan, will be available for inspection during the normal business hours at the Company's registered office from the date of the Notice of the Meeting to the close of the meeting and at the place of the meeting from 15 minutes prior to its commencement until its conclusion.

Copies of the rules of the Performance Share Plan and Share Matching Plan will also be available for inspection at the offices of Linklaters at One Silk Street, London EC2Y 8HQ from the date of the Notice of Meeting to the close of the meeting.

3. Uncertificated Securities Regulations

The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the Register of Members of the Company as at 6 pm on 2 May 2006 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries in the Register after 6 pm on 2 May 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. Excluded items

Certain items will not be permitted in the Annual General Meeting. These include bags, cameras, recording equipment, items of any nature with potential to cause disorder and such other items as the Chairman of the Meeting may specify.

Recommendation

Your Directors consider that each of the proposals detailed in the Notice of Meeting will be of benefit to and in the best interests of the Company and the shareholders as a whole. The Directors intend to vote in favour of all Resolutions in respect of their own beneficial holdings of ordinary shares in the Company and unanimously recommend other shareholders to do likewise.

Notice of meeting

Shareholder information

Registrars

Lloyds TSB Registrars (0140)
The Causeway, Worthing
West Sussex, BN99 6DA
United Kingdom
Telephone: 0870 600 3982
(+44 121 415 7058 from outside the UK)

If you have any queries regarding your shareholding, please contact the registrars.



Shareview service

The Shareview service from our registrar, Lloyds TSB Registrars, gives shareholders:

- direct access to data held on their behalf on the share register including recent share movements and dividend details;
- the ability to change their address or dividend payment instructions on-line.

To sign up for Shareview you need the 'shareholder reference' printed on your proxy form or dividend stationery. There is no charge to register.

When you register with the site, you can register your preferred format (post or e-mail) for shareholder communications. If you select 'e-mail' as your mailing preference, you will be sent shareholder communications, such as proxy forms and annual/interim results, by e-mail instead of post, as long as this option is available.

If you have your dividends paid straight to your bank account, and you have selected 'e-mail' as your mailing preference, you can also collect your tax voucher electronically. Instead of receiving the paper tax voucher, you will be notified by e-mail with details of how to download your electronic version.

However, if you choose 'post' as your preference, you will be sent paper documents as usual.

Visit the site for more details: www.shareview.co.uk. Details of software and equipment are given on the website.

Shareholder dealing service

Hoare Govett Limited offers a low cost postal dealing service enabling UK resident shareholders to buy or sell BAE Systems plc shares. Basic commission is 1%, subject to a minimum charge of £15.00. If you require further information please contact:

Hoare Govett Limited
Telephone: +44 (0)20 7678 8300

This notice has been approved by Hoare Govett Limited which is authorised and regulated by the Financial Services Authority.

ShareGift

The Orr Mackintosh Foundation operates a charity donation scheme for shareholders with small parcels of shares which may be uneconomic to sell. Details of the scheme are available from ShareGift at www.sharegift.org or by telephone on 020 7337 0501.

Dividend reinvestment plan

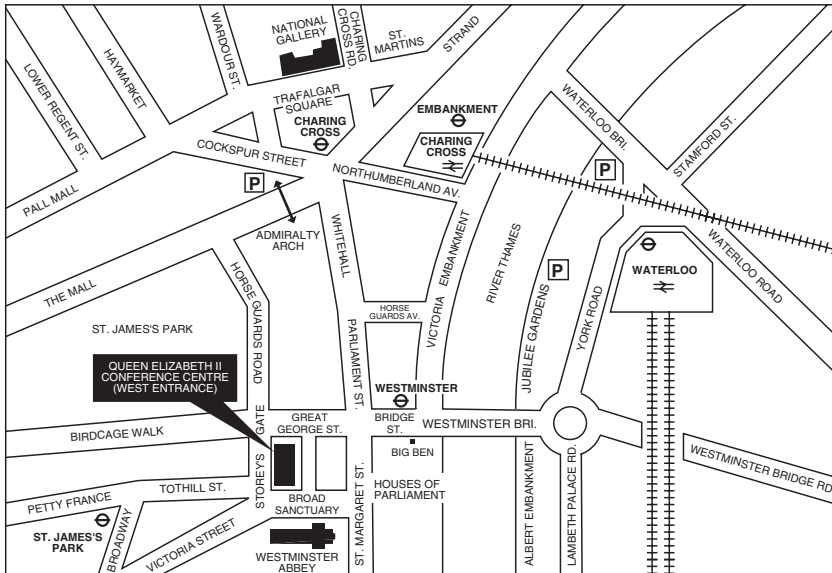
The Company offers holders of its ordinary shares the option to elect to have their dividend reinvested in shares purchased in the market instead of cash. If you would like to make this election, please request a dividend reinvestment plan mandate from our registrars:

Lloyds TSB Registrars, The Causeway,
Worthing, West Sussex, BN99 6DA
Telephone: 0870 241 3018
(+44 121 415 7058 from outside the UK)

Financial calendar

Financial year end	31 December
Annual General Meeting	4 May 2006
Preference shares conversion date	31 May 2006
2005 final ordinary dividend payable	1 June 2006
2006 half yearly preference dividend payable	3 July 2006
2006 interim results announcement	September 2006
2006 interim ordinary dividend payable	November 2006
2006 half yearly preference dividend payable	2 January 2007
2006 full year results – preliminary announcement	February 2007
– report and accounts	April 2007
2006 final ordinary dividend payable	June 2007

How to get there



Nearest underground station: Westminster
(Circle, District and Jubilee lines)

BAE Systems plc

6 Carlton Gardens

London SW1Y 5AD

United Kingdom

Telephone +44 (0)1252 373232

Registered in England and Wales No. 1470151

Website details

www.baesystems.com
