

BAE Systems plc
Annual General Meeting
Wednesday 5th May 2010
Queen Elizabeth II
Conference Centre, London

FAQs

INTRODUCTION

The Company has produced this information sheet which provides answers to the questions most frequently asked by shareholders, including in response to the Company's request which accompanied the notice of this meeting, or in the course of recent routine meetings with institutional shareholders.

Q1

Given the difficult economic environment for some of the Group's key government customers, what are the risks of programme curtailment or cancellation?

We have been aware of the significant budget pressures on the UK Ministry of Defence (MoD) for some time. As a result, we have planned our future UK business on robust assumptions. While there are bound to be challenges for the business in the UK against the current financial background, we are continuing to work with the MoD to establish a coherent plan for its future requirements – a plan which maintains a sustainable defence industrial base in the UK.

The diversity of the BAE Systems portfolio across many US platforms, programmes and customer bases is expected to mitigate risk to the Company associated with major cuts in any particular US defence programmes. Early indications are that our global initiatives in security, as well as readiness and sustainment (that is the provision of through-life operational capability for the armed forces), are in sectors with strong support from the US government.

Across the Group, BAE Systems maintains a global presence, with a broadly-based and robust business and a large order book.

Q2

What efforts are being made to reduce reliance on UK/US defence expenditure and what are the Company's prospects in emerging growth markets?

We have long been aware of the significant overall budget pressures on both the UK MoD and the US Department of Defense. We continue to identify opportunities for growth within the UK and US markets, including further development of our existing businesses.

We are seeking new markets with good sustainable growth prospects. In late 2009 we established a seventh home market – India – and we look towards further development of our home markets, as well as exploring export opportunities therefrom.

The strategy we have been pursuing is one that aspires to long term sustainable performance. BAE Systems is a resilient business, well positioned to weather the pressures in global markets.

Q3

Where do you see growth opportunities in the current economic environment?

We have identified three specific growth areas for the business which will continue to drive opportunities for future growth for the Group:

- in combat aircraft we continue to build on our strong position on the two pre-eminent global programmes – Typhoon and Joint Strike Fighter. The contract for Tranche 3 Typhoon, awarded last year, was significant. It secures workload for a number of years and provides a path to new capability;
- readiness and sustainment represented approximately 40% of 2009 group sales and will continue to provide opportunities across our home markets.

The Company has well developed positions in readiness and sustainment in the UK and in the Kingdom of Saudi Arabia. We see the scope of our involvement continuing to increase in the UK as budget pressures continue to increase.

The readiness and sustainment model is also suitable for other markets such as Australia and the US. In the US we are building on a strong foundation in the ship repair and modernisation business, maintenance and upgrades to land vehicles, and support to airborne platforms;

- the important and growing area of security which is continuing to increase in importance for our key customers. In the UK we have a good position providing unrivalled capabilities to the security communities and in the US we have a high quality business that is focused on cyber and network protection.

We expect both the US and UK businesses to develop rapidly in this current environment and we see opportunities in our other home markets too.

Q4

What is the likely outcome of the forthcoming UK Strategic Defence Review and what has the Company done to plan for this?

It is important that a new government carrying out a review of Defence recognises the extent to which the defence industry contributes to the national interest: in defence capability; jobs, technology and skills; and revenue for the country.

We anticipate that any Government carrying out a defence review, will ensure that industry is consulted, and is given the opportunity to ensure that these factors are properly taken into account. We also believe that industry can help the MoD obtain value for money in the management and expenditure of defence budgets.

Irrespective of the outcome of the Strategic Defence Review, we are continuing to work with the MoD to help establish a coherent plan for future requirements – a plan which maintains a sustainable defence industrial base in the UK.

Q5

How will you ensure that issues that gave rise to the Serious Fraud Office (SFO) and Department of Justice (DoJ) investigations do not happen again?

Today we operate to world-class standards of responsible business conduct and we remain firmly committed to becoming recognised as a leader in this area.

In January 2009 we launched a global Code of Conduct. The Code encapsulates the principles and standards of business conduct we expect of employees, and represents an unequivocal public statement of what we stand for, and how we do business. Our people understand the Company's expectations of them and breaches of the Code are subject to disciplinary procedures.

Regular training forms a key part of our ongoing commitment to responsible behaviour. We have embedded Responsible Trading Principles into the Company's governance and these principles require that all trading is undertaken in accordance with our Company values. Together with our Code of Conduct, these underpin the way we do business.

The Woolf Committee's report provided us with a route map to establish a global reputation for business conduct that matches our reputation for outstanding technical competence. Our response to the report has enhanced the rigour of our internal governance, policies, processes and controls with the aim of ensuring that we conduct our business in a responsible manner. We believe that our customers and regulators recognise the actions taken to systematically enhance policies and processes, and the progress made in embedding world-class standards of responsible business conduct across the Group.

Q6

Why was action not taken earlier to address the Company's reputational issues?

We did not wait for the conclusion of the investigations before taking any action. Actions to address responsible business behaviour issues more effectively commenced a number of years ago.

For example, in June 2007 we asked Lord Woolf, the former Lord Chief Justice of England and Wales, to lead an independent external committee to review the Company's ethical business conduct. We committed, at that time, to act on each and every recommendation that the Committee made. This was a bold, and perhaps unprecedented, move by the Board.

We have also spent much of 2009 reviewing and updating many of our policies and governance procedures to address the 23 recommendations in the Woolf Committee's report.

Q7

Will the DoJ/SFO settlement prevent BAE Systems from taking on business in some countries and thus hand its competitors an advantage?

Like all companies we have to prioritise where we do business. In setting these priorities we take into account a wide range of commercial, legal and reputational factors. We have strict policies and governance systems dealing with where we will pursue business opportunities.

We have, and we will continue to, turn down business that is inconsistent with our standards of business conduct and has the potential to cause damage to our, or our customers' reputations. This is the right thing to do and we do not believe this will disadvantage the business.

Q8

Have all the Woolf Committee Report recommendations been fully implemented and how are you measuring the improvements in ethical behaviour and reputation that these were intended to achieve?

The Woolf Committee's report provided us with a route map to establish a global reputation for business conduct that matches our reputation for outstanding technical competence.

We are making good progress in implementing the report's 23 recommendations and have completed and implemented key enhancements to our policy and processes. In addition to acting on the report's 23 recommendations, we must continue to evolve policy relating to responsible business conduct.

We have also enhanced our internal audit capabilities to ensure responsible business conduct and non-financial risks are assessed in all internal audits.

Q9

What measures have been taken to review product safety across the business following the publication of the Haddon-Cave Report into the loss of Nimrod XV230 over Afghanistan?

Our focus on safety remains a top priority.

After careful consideration of Charles Haddon-Cave QC's Nimrod Review, we announced the appointment in December 2009 of Dr Chris Elliott FREng, a leading safety systems engineer and barrister, to support and advise Nigel Whitehead FREng, Group Managing Director Programmes & Support, in undertaking a review of the Company's approach to product safety across all its sectors in the UK.

The review is underway and the team has been tasked with reviewing the Company's current practices with regard to product safety, generally and the preparation of product safety cases in particular, including but not limited to governance, oversight, capability and culture.

Q10

What action is being taken in respect of the pension fund deficits?

In the UK we agreed with the Main Scheme Trustees and the Pensions Regulator in 2009 to continue with the recovery plan for the 18 years it has to run, and also to make a £225m cash contribution in 2009 to the Trust established for the benefit of the Main Scheme. In addition, a \$250m contribution to the US schemes was made in 2009 and pension benefits were restructured in the US.

The next scheduled triennial actuarial valuations for the 2000 Plan and our section of the Shipbuilding Industries Pension Scheme will be carried out this year, whilst those for the Main Scheme and the Royal Ordnance Pension Scheme will be carried out in 2011.

Q11

Given recent contract losses in the land systems business, have the large US acquisitions of UDI and Armor Holdings been a success?

We believe that the acquisitions of UDI and Armor Holdings have been successful, and our global strategy retains our long-standing objective to grow in the land sector and successfully deliver good value for shareholders.

The recent loss of the FMTV contract resulted in an impairment of intangible assets of £592m (just over half of the total £973m write-down in 2009) related to the acquisition of the former Armor Holdings business. Such impairments reflect changes in the outlook for a business going forward; they do not take into account any past outperformance since acquisition, such as in this case the significant Mine Resistant Ambush Protected (MRAP) vehicle development and production programme. Such impairments are not a meaningful measure of the value resulting from an acquisition.

BAE Systems remains committed to the land systems strategy to deliver the best products and to support them in the field for our customers around the world.

Q12

Is the Company seeing evidence of increasing protectionism from the US Government?

No, we are one of the largest and most trusted suppliers to the US Department of Defense.

Q13**Given the strength of the Group's balance sheet, what is the Board's priority for cash utilisation?**

We have a strong balance sheet, closing 2009 with net cash. The strength of the balance sheet allows us to return capital to shareholders through dividends and the current programme of up to £500m of share repurchases. In addition, we retain the flexibility to continue to invest in the business, and to fund our pension obligations.

Q14**Once the current £500m share buyback programme is completed, will you launch another buyback programme?**

The Board is committed to managing the Company's capital effectively and considers that the purchase by the Company of its ordinary shares may in certain circumstances be advantageous to shareholders. There are no current plans to launch a further share buyback programme, but this will be kept under review as part of the Board's ongoing management of the Company's capital.

Q15**Why doesn't the Company pay a special dividend rather than undertake a share buyback programme?**

A share repurchase programme through market purchase of shares has an enduring benefit in terms of enhancing earnings per share. Also, it provides greater flexibility than a one-off special dividend payment.

Q16**Why does the BAE Systems share price not reflect the Company's strong order book?**

The share price reflects a number of business parameters including, but not exclusively, the order book. For instance it reflects market expectations of growth rates relative to other investments that might be seen to offer higher growth from exposure to economic and cyclical recovery. Ultimately, the share price is a matter for the market.

Q17**How can a defence company be seen as ethical and environmentally friendly?**

We are proud of our role as a global defence, security and aerospace company. Our response to the Woolf Committee's report and the roll out of our global Code of Conduct are important stages in meeting our commitment to becoming a recognised leader in responsible business conduct.

We aim to improve the environmental performance of our business and products. Minimising our environmental impact will improve operational efficiency, reduce cost and ensure continued compliance with regulatory requirements. We have improved our measurement of environmental data to ensure we manage the impact of our operations on the environment effectively.

We are working with the Coefficient Company to calculate our 2009 global carbon footprint – this analysis is due to be completed in 2010. The Coefficient Company produced and provided us with an analysis of our 2008 global carbon footprint. Our carbon footprint has increased since 2007 for two principal reasons:

- we have improved the coverage and accuracy of our energy and business travel data;
- acquisition of new businesses during 2008 have brought with them associated emissions, increasing our overall footprint.

Q18**What views does the Company have on the potential outcome of the UK General Election on 6 May 2010?**

Irrespective of the outcome, we are continuing to work with the MoD to help establish a coherent plan for future requirements – a plan which maintains a sustainable defence industrial base in the UK.

Q19

Why is the Annual Report so lengthy?

Disclosure regulation and best practice has grown substantially in recent years, for example, in the areas of narrative business 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 and depth of the stewardship report to shareholders which is the fundamental purpose of the Annual Report.

Despite its length, we have endeavoured to provide 'sign-posting' to facilitate navigation by shareholders through the document.

Many of our shareholders now prefer to receive an email from the Company with a direct electronic link to the Annual Report, or to be notified in writing by the Company when the Annual Report is available on the Company's website and access it accordingly. Latterly the number of hard copy Annual Reports that the Company posts to shareholders has significantly reduced as electronic access has increased.

Q20

Are there any plans to replace the Dividend Reinvestment Plan (DRIP) with a Scrip Dividend scheme?

There are no current plans to replace the DRIP (which uses market purchase shares for shareholders who wish to receive their dividend in shares) with a Scrip Dividend scheme (which uses new issue shares for shareholders who wish to receive their dividend in shares). We will, however, keep this under review and, should we believe this to be in the Company's best interests, put an appropriate proposal to shareholders in due course.

BAE Systems plc
6 Carlton Gardens
London SW1Y 5AD
United Kingdom
Telephone +44 (0)1252 373232
www.baesystems.com