

FAQs

Each year, shareholders attending the Company's Annual General Meeting have the opportunity to ask questions of the Board. The vast majority of the Company's shareholders are not, however, able to attend the meeting and therefore raise their questions at other times.

To ensure that shareholders present at the meeting are aware of the Company's answers to the questions most frequently asked by shareholders, the Company has produced this information sheet. This provides answers to the questions most frequently asked by shareholders, either in response to the Company's request which accompanied the notice of this meeting, or in the course of recent routine meetings with institutional investors.

Q1: How does the Board ensure the robustness and integrity of the remuneration review process for the executive directors?

A1: The Board delegates responsibility for remuneration policy and for determining the specific packages for the executive directors to the Remuneration Committee, the members of which are all independent non-executive directors.

The Committee's policy is to set base salary at around median at the relevant market competitive levels taking into account performance and experience in role, whilst seeking to reward upper quartile performance with potential upper quartile remuneration through the focused use of bonus schemes and share-based incentives. The Committee appointed its own independent adviser in 2007, Kepler Associates, to advise on remuneration matters and a significant amount of market benchmarking and analysis is undertaken to assist the Committee to determine the individual remuneration packages. The independent remuneration adviser is usually in attendance at each Committee meeting.

The Committee is satisfied that it has robust procedures in place to ensure that executive pay is competitively positioned to enable the Company to attract, motivate and retain the highest calibre of executives, and that a significant part of the package is performance-related to align executives' interests with those of shareholders to deliver outstanding performance.

Q2: Are there any plans to increase the percentage of women in the Company?

A2: As for all employee groups, we are committed to promoting the inclusion and professional development of women. The heritage of our business as a heavy engineering company explains why we have our current demographic and increasing gender diversity is very challenging in our industry.

We have a number of initiatives designed to increase gender diversity covering the areas of education, recruitment, leadership development, flexible working and women's networks. For example, we have identified female employees in each business who have the potential to become senior leaders. They have been appointed a senior mentor to help identify development needs and provide guidance on career planning.

In addition, the Nominations Committee is responsible for planning the long-term, orderly succession of new directors to the Board, and does conduct its search for new directors across a broad candidature base with the assistance of external consultants.

Q3: Why is the Annual Report so lengthy?

A3: Disclosure regulation and best practice has grown substantially in recent years, for example, in the areas of narrative business reporting, key performance indicators (KPIs), 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 complex 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.

Q4: How is the Company faring in current economic conditions?

A4: The Company has consistently delivered progressive performance over recent years. BAE Systems is not insulated from the difficult wider economic environment. The Group recognises that defence budgets are likely at some stage in the future to come under further pressure and it will continue to apply conservatism to its planning assumptions. The Group is well-positioned, having a large forward order book, a good balance of market positions around the globe, a well spread portfolio of programmes and a strategy to address anticipated priority areas of spend for its customers.

As we said at the time of our 2008 preliminary results announcement in February 2009, a feature of our business is the good visibility provided by our strong order book. A further year of good growth is anticipated in 2009, despite a lower level of land vehicle sales than in 2008. In addition, the Group's trading results would be expected to benefit from a continued weakness of sterling against the US dollar.

Q5: Why are the Company's good financial results and strong order book not reflected in the share price?

A5: In 2008 the Company delivered another year of good performance with strong earnings growth, good cash flow generation and an increased dividend for shareholders.

The BAE Systems share price has been impacted like that of many other companies by the difficult economic conditions in global financial markets. BAE Systems did, however outperform the FTSE All Share index in 2008.

Ultimately, the share price is a matter for the market and it is also influenced by macro economic factors.

Q6: What is the status of the UK Serious Fraud Office (SFO) and US Department of Justice (DoJ) investigations?

A6: Engagement with the SFO is ongoing and we continue to support the SFO with its enquiries, with access to people, information and premises whenever requested and fully support a rigorous approach, in the hope that it brings to a conclusion enquiries which are now in their sixth year.

The DoJ investigation is ongoing, and for this reason, it is inappropriate for BAE Systems to comment further at this time.

BAE Systems' view is that the interests of the Company as well as of all its stakeholders, including the general public, are best served by allowing these investigations to run their course. The Company is working with regulators towards that end, with a view to achieving resolution of the ongoing investigations.

Q7: Is the Company continuing to pursue its acquisition strategy?

A7: The Company continues to pursue opportunities to further its growth strategy in each of its six home markets, both in terms of achieving organic growth and through acquisitions. It also continues to look at opportunities to establish a home market presence in other countries.

The Company balances the uses of its cash resources to enable it to pursue value-enhancing acquisitions whilst at the same time delivering returns to shareholders, financing its ongoing business commitments, and meeting other obligations.

Q8: How is the Woolf Report implementation programme progressing?

A8: The Woolf Report, published in May 2008, made 23 recommendations for further improvement. We committed to implement all the Woolf Committee's findings before the Report was published and have put in place a comprehensive implementation programme of up to three years to achieve this. The Company is committed to be recognised as a leader in responsible business worldwide.

The three-year programme is an extensive and thorough undertaking during which changes will be progressively implemented across the Company.

We have made good progress since the Report was published:

- we have a comprehensive programme underway to implement the Woolf Report recommendations within the next three years
- we launched a global Code of Conduct in January 2009
- we have appointed a Managing Director of Corporate Responsibility, who reports directly to the Chief Executive
- we have revised our policy on Business Development Advisers
- we have appointed Deloitte LLP to undertake independent assurance of our Corporate Responsibility Report which will include assurance over the statements we make with regard to our Woolf Implementation Programme.

The 23 recommendations have been divided into six key areas of operational activity – each addressed by a Working Group. The first phase of the work for the Working Groups is complete.

The next phase, currently underway, is a consultation process both inside and outside the Company on those proposed solutions. We will then begin the final design process and work towards full implementation from early 2010 onwards.