

BAE Systems plc 2008 Annual General Meeting

Frequently asked questions

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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 do not, however, have an opportunity to attend the meeting and therefore take the opportunity to raise their questions on other occasions.

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 which 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: What are the implications for the Company of UK defence budget constraints?

A1: The Company has a large UK business order book with contracts across a broad range of defence programmes. The Company believes it has made realistic planning assumptions regarding the outlook for those programmes yet to be committed to contract, recognising the difficult budgetary environment for the UK MoD and armed forces.

Q2: What is the outlook for US defence spending and how will the current US Presidential elections impact this?

A2: We believe the US defence market remains a strong and attractive market within which to do business. Our large order book gives us a good deal of forward visibility and the Company's strategy has been to focus on areas of the US defence market that we believe offer good sustainability. Despite this strong business position in the US market the Company's plans are based on what we believe to be realistic assumptions for reduced growth in US defence spend. The Company believes that a strong defence and security environment is likely to be a feature of any US presidential election campaign. Although each candidate may present some differences in priorities around that core defence strength, the Company has a broad base of programmes and activities in the US market.

Q3: What did the Company do with the £1.2bn that it received from the sale of its stake in Airbus and will the share buy-back programme be re-started?

A3: At the time of the Airbus disposal the Company indicated that it would return some of the disposal proceeds to shareholders by way of on-market purchases of shares (which commenced in October 2006), as well as making some of the proceeds available for debt repayments and future investment in the Group, and to pursue selected value enhancing acquisitions to strengthen the core business. To this latter end, some of the proceeds were used to part-fund the acquisition of Armor Holdings, Inc in 2007 which has significantly grown the Company's Land and Armaments business. The Board has no current plans to restart the share buyback programme but will keep this under review.

Q4: What are the prospects for the Company's business in the Kingdom of Saudi Arabia?

A4: The contract for 72 Typhoon aircraft was signed last year and the Company, with the UK government, is working to conclude a number of additional contracts in support of these aircraft. The agreement signed in 2005 between the governments of the Kingdom of Saudi Arabia and the UK provides a framework for the modernisation of the Saudi armed forces. Typhoon is a key element of the modernisation of the Royal Saudi Air Force and is a focus of current activity prior to addressing further opportunities.

Q5: What progress has been made towards the identification and appointment of a successor to Mike Turner?

A5: The Board has appointed executive search consultants to ensure that an appropriate mix of external and internal candidates is identified for consideration. Good progress has been made and the Board expects to identify and announce a new CEO in advance of Mike Turner's retirement in August of this year.

Q6: How does the Board determine the level of the executive directors' pay and benefits?

A6: 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 median 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 has appointed its own independent adviser, 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 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. The Remuneration Report on pages 64-83 of the Annual Report sets out the Committee's remuneration strategy and policy in detail.

Q7: What do the non-executive directors do to earn their fees and how much time does this represent?

A7: The Company's independent directors make a vital contribution to the governance of the Company and take leadership roles on major board committees such as those dealing with Audit, Corporate Responsibility and Remuneration. Whilst these are not full-time roles, they are becoming increasingly demanding of time, expertise and experience as both the complexity and scale of the business and the regulatory requirements upon directors continue to grow. The level of fees paid to the independent directors reflects the importance of their role and is regularly benchmarked against that paid by the Company's peers.

Q8: What progress is the Company making towards implementing its strategy of international growth?

A8: The Company operates in six home markets: the UK, the US, the Kingdom of Saudi Arabia, Australia, Sweden and South Africa. The recently-announced acquisitions of MTC Technologies Inc. in the US and Tenix Defence in Australia are examples of the Company's progress towards building a position as a key constituent of the defence industrial base in selected markets. Tenix Defence will, for example, establish BAE Systems Australia as the largest defence contractor in the Australian market. Other markets identified by the Company as having attractive sustainable growth characteristics include India and the Company is currently looking to establish an appropriate way forward to enable it to participate as a key partner in the Indian defence industry.

Q9: What are you doing to safeguard the Company's reputation against allegations of bribery and corruption?

A9: The Company believes that the best safeguard against unfounded allegations is to ensure that its reputation reflects the reality in terms of the conduct required by its policies and processes. In appointing the Woolf Committee last year to study and report on the Company and its business practices in great detail, the Company is seeking, amongst other things, to ensure that an up to date analysis based on facts and conducted by a Committee of experts is publicly available.

Q10: How long does the Company expect the Serious Fraud Office (SFO) and Department of Justice (DoJ) enquiries to continue and what is the impact on the Company likely to be?

A10: The Company does not know what the future course of these investigations will be. The SFO investigation is now in its fourth year and the SFO has given no indication to the Company that it has evidence that the Company has broken the law. The DoJ investigation is also ongoing and the Company has been provided with no information by the DoJ of its progress. Until the outcome of these investigations is known, the Company is unable to assess their impact.

Q11: What are the likely impacts on the Company's business of the current turmoil in financial markets and the weak Dollar?

A11: The Company has a strong balance sheet with cash at the year end of £3.2bn and gross debt of £2.5bn. The Company also has available a £1.5bn committed but unused Revolving Credit Facility which matures in February 2012. The Company has no immediate significant debt maturities and no material exposure to the US Dollar other than to the translation of its reported earnings and net assets of its US business.

Q12: What is the Company doing to reflect gender and ethnic diversity on the Board and throughout the Company as a whole?

A12: Our emphasis is on ensuring a workplace environment where difference is respected and valued. Our longer term initiatives consider the capability and talent required to deliver on our strategy. We have objectives for 2008 on raising awareness and understanding amongst the senior population with the output being focused action plans. We are also extending the women's network initiatives which have been successfully introduced at a number of our sites. With respect to Board diversity, we have directors from a variety of backgrounds who provide challenge and insight. We support initiatives which increase the breadth of the available pool of future senior directors.