

Notice of Annual General Meeting



AGM 2008

This year's Annual General Meeting will be held at 11:00am on 7 May 2008 at The Queen Elizabeth II Conference Centre, London.

Dear Shareholder

This document includes the 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.

You can vote on the resolutions put to shareholders either online or by post as follows:

- Online – if you have accessed this notice electronically, you simply need to click on the electronic voting icon on the Shareholder Reporting website at www.baesystems.com/reporting/. Instructions on how to vote electronically can be found on page 3 of this document.
- By post – if you received the 2007 Report and Accounts, or a notification that this is available to be viewed on our website, you will also have received a proxy card. Instructions on voting can be found on the proxy card.

It is good practice for companies to take a poll on all resolutions put to shareholders and we have used such polls for a number of years. This allows all shareholders to have their votes recognised whether or not they are able to attend the meeting.

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

If you are unable to attend the meeting, but have any questions on the business to be discussed at the AGM, we would like to hear from you ahead of the meeting. Whilst we cannot answer questions individually, we will provide responses to the topics most frequently raised and post these on our website as well as making them available at the AGM. If you have received a paper copy of this notice, you will have received a card you can use to ask such a question. Shareholders reading this online will be able to submit a question via the Shareholder Reporting website.

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

Yours sincerely

Dick Olver Chairman
28 March 2008

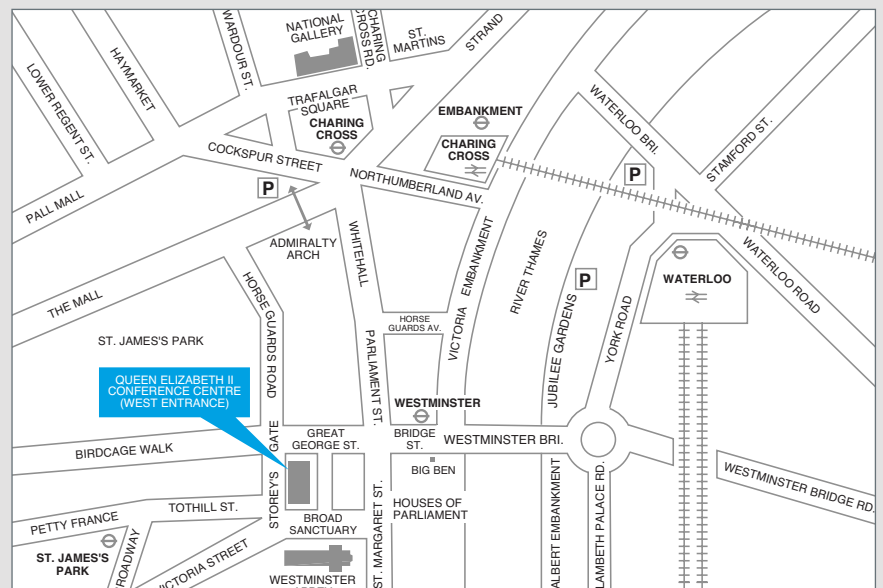
Important

This document is important and requires your immediate attention

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your shares, please send this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

How to get to the AGM



BAE SYSTEMS

REAL PERFORMANCE. REAL ADVANTAGE.

Notice of Annual General Meeting

To BAE Systems plc Ordinary Shareholders

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 Wednesday 7 May 2008 at 11.00am for the purpose of transacting the following business:

To consider, and if thought fit, to pass the following Resolutions 1-15, 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 2007 and the Directors' Report 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 2007 be and is hereby approved.

RESOLUTION 3 – Authorisation of the payment of the final dividend

THAT the final dividend for the year ended 31 December 2007 of 7.8 pence per ordinary share be and it is hereby declared payable on 2 June 2008 to Ordinary Shareholders whose names appeared on the Register of Members at the close of business on 18 April 2008.

RESOLUTION 4 – Re-election of Director

THAT Sir Peter Mason retiring pursuant to Article 85 be and is hereby re-elected a Director of the Company.

RESOLUTION 5 – Re-election of Director

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

RESOLUTION 6 – Re-election of Director

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

RESOLUTION 7 – Election of Director

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

RESOLUTION 8 – Election of Director

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

RESOLUTION 9 – Reappointment of the 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 10 – 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 11 – Political donations and expenditure

THAT:

- (a) the Company and those companies which are subsidiaries of the Company at any time during the period for which this resolution has effect be authorised for the purposes of Part 14 of the Companies Act 2006 during the period from the date of the passing of this resolution to the earlier of the conclusion of the Company's Annual General Meeting in 2009 or 30 June 2009:
- (i) to make political donations to political parties, and/or independent election candidates;
- (ii) to make political donations to political organisations other than political parties; and

(iii) to incur political expenditure,

up to an aggregate amount of £100,000, and the amount authorised under each of paragraphs (i) to (iii) shall also be limited to such amount;

(b) all existing authorisations and approvals relating to political donations or expenditure under Part 10A of the Companies Act 1985 are hereby revoked without prejudice to any donation made or expenditure incurred prior to the date hereof pursuant to such authorisation or approval; and

(c) words and expressions defined for the purpose of the Companies Act 2006 shall have the same meaning in this resolution.

RESOLUTION 12 – Amendment to the BAE Systems Share Matching Plan 2006

THAT the rules of the BAE Systems Share Matching Plan be amended to increase individual limits as set out in the copy of the Plan rules produced to this meeting and, for the purposes of identification, initialled by the Chairman.

RESOLUTION 13 – Amendment to the BAE Systems Performance Share Plan 2006

THAT:

- (a) the rules of the BAE Systems Performance Share Plan be amended to increase individual limits and make amendments to the vesting provisions as explained in the note to this resolution and as set out in the copy of the Plan rules produced to this meeting and, for the purposes of identification, initialled by the Chairman; and
- (b) the Directors be authorised to make one half of an award subject to a performance condition based on appropriately stretching internal measures as determined by the Board's Remuneration Committee (in accordance with the policy summarised in the note to this resolution).

RESOLUTION 14 – Increase authorised share capital

THAT the share capital of the Company be increased from £180,000,001 to £188,750,001 by the creation of 350,000,000 ordinary shares of 2.5p each.

RESOLUTION 15 – 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 30 June 2009 or, if earlier, on the day before the Company's Annual General Meeting in 2009 and that for such period the Section 80 Amount will be £29,275,236.

To consider, and if thought fit, to pass the following Resolutions 16-18, which will be proposed as SPECIAL RESOLUTIONS:

RESOLUTION 16 – Disapplication of pre-emption rights

THAT the power conferred on the Directors by Article 12 (B)(ii) of the Articles of Association of the Company be and is hereby renewed for the period ending on 30 June 2009 or, if earlier, on the day before the Company's Annual General Meeting in 2009 and that for such period the Section 89 Amount will be £4,391,724.

RESOLUTION 17 – 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:

- (a) the maximum number of shares that may be purchased is 351,337,974;

- (b) the minimum price which may be paid for each share is 2.5p;
- (c) the maximum price that may be paid for each 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 share is contracted to be purchased; and
- (d) this authority shall expire on the conclusion of the Annual General Meeting of the Company held in 2009 or, if earlier, 30 June 2009 (except in relation to the purchase of 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.

RESOLUTION 18 – Amendments to the Articles of Association

THAT:

- (a) with effect from the end of this Annual General Meeting or any adjournment thereof, the Articles of Association of the Company be and are hereby amended so that they shall be in the form of the amended articles of association produced to the meeting, marked 'A' and initialled by the Chairman of the meeting for the purposes of identification; and
- (b) with effect from 00:01 on 1 October 2008 or any later date on which Section 175 of the Companies Act 2006 comes into effect:
 - (i) for the purposes of Section 175 of the Companies Act 2006, the Directors be given power in the Articles of Association of the Company to authorise certain conflicts of interest as described in that section; and
 - (ii) the Articles of Association of the Company then in force be and are hereby amended by the deletion of Articles 96 and 97 in their entirety, by the insertion in their place of new Articles 96, 97, 98, 99 and 100 and by the making of all consequential numbering amendments therefor required, as detailed in the amended articles of association produced to the meeting, marked 'B' and initialled by the Chairman for the purposes of identification.

By Order of the Board

David Parkes
 Company Secretary
 28 March 2008
 6 Carlton Gardens
 London SW1Y 5AD

Notes

1. Shareholders are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A proxy need not be a member of the Company.
2. A proxy form which may be used to make such appointment and give proxy instructions has been sent to all shareholders (except those who have elected to receive notice via email who should refer to paragraph 7 below). If a shareholder wishes to appoint someone other than the Chairman of the meeting to act as the shareholder's proxy, the shareholder should delete the reference to the Chairman in the proxy form, and insert in block letters the name of the person that the shareholder wishes to appoint in the space provided, and initial the alteration.

Shareholders who have received a proxy card may appoint a proxy or proxies electronically via the Company's website at www.baesystems.com/reporting/ using the Voting ID, Task ID and Shareholder Reference Number on the proxy card. Electronic proxy appointments must be received not later than 11.00am UK time on 5 May 2008.

3. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. If in such case a shareholder wishes to appoint more than one proxy, the shareholder should photocopy the proxy form and indicate in the box, next to the proxy holder's name, the number of shares in relation to which the shareholder authorises them to act as the shareholder's proxy. The shareholder should indicate by marking the relevant box on the proxy card if more than one proxy is being appointed.
4. In the case of joint holders the signature of any one of them will suffice. The vote of the senior party tendering a vote (whether in person or by proxy) shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.
5. To be valid any proxy form or other instrument appointing a proxy must be completed, signed and returned so as to be received by post or (during normal business hours only) by hand at the office of the Company's Registrar, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DX not later than 11.00am UK time on 5 May 2008, being not less than 48 hours before the time for which the meeting is convened.
6. The return of a completed proxy form, other such instrument or any CREST Proxy instruction (as described in paragraph 12 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
7. Shareholders who have elected to receive notice via email, and who have therefore not received a proxy card, may appoint a proxy or proxies electronically via the Company's website at www.baesystems.com/reporting/ using their usual Shareview portfolio identification particulars. Electronic proxy appointments must be received not later than 11.00am UK time on 5 May 2008.
8. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement,

Notice of Annual General Meeting (continued)

- have a right to give instructions to the shareholder as to the exercise of voting rights.
9. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 to 7 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
 10. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 6pm on 5 May 2008 (or, in the event of any adjournment, 6pm on the date which is two days before the date of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
 11. As at 11 March 2008 (being the last practicable business day prior to the publication of this Notice) the Company's issued ordinary share capital consisted of 3,575,324,741 ordinary shares and one special share. Holders of ordinary shares are entitled to attend and vote at general meetings of the Company. The holder of the special share is entitled to attend general meetings of the Company, but is not entitled to vote. The consent of the holder of the special share is required in certain limited circumstances, as set out in the Company's Articles of Association. On a vote by show of hands every ordinary shareholder who is present has one vote and every proxy present who has been duly appointed by a shareholder entitled to vote has one vote. On a vote by poll, every ordinary shareholder who is present in person or by proxy has one vote for every ordinary share of which he is the holder.
 12. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so 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 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.
 13. 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 Euroclear's specifications, and must contain the information required for such instruction, 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) no later than 11.00am on 5 May 2008, being not less than 48 hours before the time for which the meeting is convened. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application 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.
 14. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. 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, 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 system providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.
 15. 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.
 16. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the Chairman is being appointed as described in (i) above.
 17. Shareholders should note that on a request made by shareholders of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) which are to be laid before the Annual General Meeting for the financial year beginning on 1 January 2009; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 January 2009 ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with section 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
-

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 64 to 83 of the Company's Annual Report 2007.

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 Sir Peter Mason and Mike Turner, who are seeking re-election, continue to be effective members of the Board and demonstrate their commitment to their responsibilities. This is supported by the performance evaluation that the Board undertook recently.

The Chairman himself is also seeking re-election to the Board under the same provisions in the Articles of Association. On the basis of the feedback received through the Board's performance evaluation process, Sir Peter Mason, in his capacity as Senior Independent Director, confirms that Dick Olver continues to be an effective Chairman and demonstrates commitment to his role as Chairman.

The biographies of those Directors retiring at the Annual General Meeting who wish to seek re-election are as follows:

Sir Peter Mason – Non-executive director

Sir Peter Mason, 61, was appointed to the Board in 2003 and is the non-executive Chairman of Thames Water and a non-executive director of Acergy S.A. Sir Peter was previously Chief Executive of AMEC plc. Prior to joining AMEC in 1996, he held a number of appointments in the engineering and construction industry before he joined Norwest Holst in 1980 and was appointed Chief Executive of Norwest Holst PLC in 1985. He was subsequently appointed an executive director of BICC plc in 1992 and then Chairman and Chief Executive of Balfour Beatty Limited.

Sir Peter is the Senior Independent Director on the BAE Systems Board and is a member of the Audit and Nominations committees.

Michael Turner CBE – Chief Executive

Mike Turner, 59, joined the Company in 1966 and has held a number of commercial, marketing and general management positions. In 1992 he became Chairman and Managing Director of the Regional Aircraft business and two years later became responsible for all the Company's commercial aircraft activities. In the same year he joined the Board of British Aerospace plc. On completion of the BAe/MES merger in 1999 he was appointed Chief Operating Officer with responsibility for a number of businesses including the commercial aircraft, marine, joint-ventures and North American businesses. He was appointed Chief Executive in 2002 and will be retiring from the Board at the end of August 2008 after a career in the Company spanning 42 years. He is a member of the Non-Executive Directors' Fees Committee.

Mr Turner is a non-executive director of Lazard Limited and a former non-executive director of Babcock International Group Plc and The Peninsular and Oriental Steam Navigation Company (P&O).

Richard Olver FEng – Chairman

Dick Olver, 61, joined the Board as a non-executive director in 2004 and was appointed as Chairman later that year. A civil engineer, he joined BP in 1973 where he held a variety of senior positions culminating in his appointment to the Board of BP p.l.c. as CEO of Exploration and Production in 1998. He was subsequently appointed Deputy Chief Executive of BP in 2003, stepping down from that position when he became Chairman of BAE Systems. He chairs the Nominations Committee and the Non-Executive Directors' Fees Committee.

Mr Olver is a non-executive director of Reuters Group plc, a Fellow of the Royal Academy of Engineering and a member of the Royal Academy Council and the Trilateral Commission.

Peter Weinberg is retiring, pursuant to Article 85 of the Company's Articles of Association, at the conclusion of the 2008 Annual General Meeting and is not seeking re-election.

1.3 Resolutions 7 and 8 – Election of Directors

Under the Combined Code on Corporate Governance the Board is required to set out the reasons for the election of non-executive directors. Andy Inglis was appointed to the Board in a non-executive capacity in June 2007. The Board believes that, as an engineer with substantial international projects experience, Mr Inglis brings valuable skills and experience to the Board that will be of considerable assistance as the Company continues to develop its business globally. In February 2008 the Company announced that Ravi Uppal would be appointed to the Board in a non-executive capacity with effect from 2 April 2008. The Board believes that Mr Uppal's wide experience of managing engineering and technology businesses in Europe, the Middle East and South Asia will further broaden the Board's range of international business experience and knowledge and be of considerable benefit to the Company.

The Board recommends that shareholders vote in favour of Mr Inglis' and Mr Uppal's election to the Board. Their biographical details are as follows:

Andrew Inglis

Andy Inglis, 48, is a director of BP p.l.c., a member of the BP executive management team, and chief executive of BP's Exploration & Production business. He began his career with BP as a mechanical engineer working on North Sea oil projects, subsequently holding a series of commercial roles in exploration, culminating in his appointment as chief executive of Exploration and Production. As well as being responsible for BP's worldwide exploration and production activities, he holds regional responsibility for Russia, the Caspian, the Middle East, North and West Africa, Canada, the Caribbean and South America, Indonesia and Vietnam.

He is a Chartered Mechanical Engineer, a Fellow of the Royal Academy of Engineering, and a Fellow of the Institute of Mechanical Engineers.

Mr Inglis is a member of the Corporate Responsibility Committee of which he will become Chairman in May 2008.

Ravi Uppal

Ravi Uppal, 55, is President, Global Markets, for the power and automation group ABB Limited, where he is also a member of the Group Executive Committee. Based in Zurich, he is responsible for ABB's marketing and business development on a worldwide basis. During his career with ABB he has also worked in Sweden, Germany and the Middle East, and among various roles has served as Country Manager, India, and Region Manager, South Asia. Between 1996 and 2001 he was Managing Director of Volvo India, establishing that corporation's business in India.

Mr Uppal is a Bachelor of Technology and also holds a management degree from the Indian Institute of Management, Ahmedabad.

1.4 Resolution 11 – Authority to incur political expenditure

The relevant provisions of the Companies Act 1985 relating to political donations have been replaced by similar provisions in Part 14 of the Companies Act 2006 with effect from 1 October 2007.

Notes on the resolutions (continued)

It remains the Company's policy not to make political donations or incur political expenditure as those expressions are normally understood. However, the definition of "political donation" continues to be wide under the new Act and therefore there remains a risk that the Company could inadvertently incur expenditure which falls within the ambit of the new Act.

In order to avoid this risk the Directors are seeking shareholders' authority for the Company and its subsidiaries to make political donations and to incur political expenditure during the period from the date of the Annual General Meeting to the conclusion of next year's Annual General Meeting or 30 June 2009, whichever is earlier, up to a maximum aggregate amount of £100,000.

1.5 Resolutions 12 and 13 – Amendments of Employee Share Plans

In 2007 the Remuneration Committee undertook a review of the remuneration arrangements for Executive Directors (see pages 66 to 69 of the Annual Report 2007). As a consequence, approval is being sought to make amendments to the Company's Share Matching Plan and Performance Share Plan in order to implement certain of the changes to the remuneration policy agreed following the review.

Share Matching Plan

It is proposed to amend the Share Matching Plan rules so that the maximum match is increased from 1:1 to 2:1. In 2009 the increased match will be aligned to a more stretching earnings per share ("EPS") performance condition. This will apply for the first time next year in respect of the 2008 annual bonus invested in the Share Matching Plan in 2009.

Performance Share Plan

It is proposed to amend the Performance Share Plan to increase the maximum award level from two times to four times base salary. It is also proposed to split the award so that half an award will vest by reference to a total shareholder return ("TSR") and associated sustained underlying performance condition and the other half of the award will vest by reference to appropriately stretching internal measures. For 2008 this will be based on the Company's nominal annual EPS growth, such that there will be no vesting at EPS growth of 5% per annum, 100% vesting at 11% EPS growth per annum, with vesting on a straight line basis between these two points.

The Remuneration Committee wishes to adopt the agreed policy regarding long-term incentive plans with effect from this year and in line with its normal practice regarding the timing of such awards. Consequently, awards are being made in line with the Company's normal timetable for such awards in March 2008 to certain Executive Directors under the rules of the Performance Share Plan, but only over half the relevant number of shares and subject to a performance condition based solely on TSR and associated sustained underlying performance. It is proposed that, subject to Resolution 13 being passed at the AGM, an additional award over the remaining half of the shares shall be made to such Executive Directors shortly after the meeting and that such award be subject solely to the EPS performance condition detailed above. It is proposed that the rules of the Performance Share Plan be amended so that both awards have a common vesting date, based on the date of the initial award.

The full text of the rules of Share Matching Plan and the Performance Share Plan as amended will be available for inspection.

1.6 Resolution 14 – Increase of Authorised Share Capital

It is proposed to increase the authorised share capital of the Company by the creation of 350,000,000 ordinary shares of 2.5p each, (representing approximately a 7.9% increase in the authorised ordinary share capital). This will result in the capital of the Company increasing from £180,000,001 divided into 4,450,000,000 ordinary shares of

2.5p each, 275,000,000 7.75p (net) Cumulative Redeemable Preference Shares of 25p each, and one special share of £1 to £188,750,001. This increase is being proposed to provide the Company with sufficient headroom to issue shares up to the full amount allowed by the usual shareholder authorities for the issuing of new shares as set out in paragraph 1.7 below.

1.7 Resolutions 15 and 16 – 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, it is considered prudent to maintain the flexibility that this authority provides. This resolution authorises Directors to allot relevant securities up to an aggregate nominal value of £29,275,236 (the amount shown as the Section 80 Amount in Resolution 15) for the period ending on 30 June 2009 or, if earlier, on the day before the Annual General Meeting in 2009. This amounts to 33.33% of the issued ordinary share capital of the Company (excluding treasury shares) as at 11 March 2008. As at 11 March 2008 the Company held 61,945,000 ordinary shares in treasury and this amounts to approximately 1.76% of the total ordinary share capital in issue (excluding treasury shares) as at that date.

It is also proposed to renew, for the period ending on 30 June 2009 or, if earlier, on the day before the Annual General Meeting in 2009, 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 £4,391,724 of nominal capital (the amount shown as the Section 89 authority in Resolution 16, being approximately 4.91% of the issued ordinary share capital of the Company (including treasury shares) as at 11 March 2008. This authority will also apply to the sale of any shares held in treasury by the Company.

1.8 Resolution 17 – 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 is 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% 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 351,337,974 ordinary shares, this being approximately 10% of the issued ordinary share capital of the Company excluding treasury shares as at 11 March 2008. As at 10 March 2008 there were 39,970,328 options to subscribe for ordinary shares outstanding, representing 1.14% of the Company's issued share capital (excluding treasury shares) at that date. If the authority was exercised in full, the options would represent 1.26% of the Company's issued ordinary share capital (excluding treasury shares).

This authority will last until the earlier of the conclusion of the Company's Annual General Meeting in 2009 or 30 June 2009.

The Company will only purchase ordinary shares if the Directors believe that it is in shareholders' best interests and will increase earnings per share. Although the Directors have no plans to exercise the authority at present, this position will be kept under review. The Directors currently intend that if any shares are bought back under this

Explanatory notes of principal changes to the company's articles of association

authority they will be held in treasury, unless the limits on holding shares in treasury would be surpassed, in which case shares bought back will be cancelled. No shares have been purchased since the authority was last renewed at the 2007 AGM.

1.9 Resolution 18 – Amendments of Articles of Association

Amendment of the Articles of Association with effect from the end of this Annual General Meeting

Part (a) of Resolution 18 is proposed primarily in order to take account of the changes in company law brought about by the Companies Act 2006 provisions that are in force as at the date of this Annual General Meeting.

The principal changes introduced by Resolution 18 Part (a) are summarised in Part A of the explanatory notes opposite. A copy of the Articles of Association of the Company marked to show all the changes being proposed in Resolution 18 Part (a) is available for inspection as set out in Note 2 below.

Amendment of the Articles of Association with effect from 1 October 2008

Part (b) of Resolution 18 is proposed in order to take account of certain provisions of the Companies Act 2006 relating to directors' conflicts of interest, which are due to come into force on 1 October 2008. On the passing of Resolution 18 the changes will automatically be adopted on 1 October 2008 or any later date on which Section 175 of the Companies Act 2006 comes into effect.

The changes introduced by Resolution 18 Part (b) are summarised in Part B of the explanatory notes on page 8 of this document. A copy of the Articles of Association of the Company marked to show all the changes being proposed in Resolution 18 Part (b) is available for inspection as set out in Note 2 below.

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, the Directors' Indemnities, details of the Share Performance Award made to Mike Turner as announced by the Company on 16 October 2007, a copy of the Articles of Association of the Company, a copy of the Articles of Association of the Company marked to show the changes proposed by Resolution 18 Part (a), a copy of the Articles of Association of the Company marked to show the changes proposed by Resolution 18 Part (b), and the Rules of the Performance Share Plan and the Share Matching Plan showing the changes proposed by Resolutions 12 and 13 will be available for inspection during normal business hours at the Company's registered office from the date of the Notice of Meeting to the close of the meeting and at the place of the meeting from 15 minutes prior to its commencement until its conclusion.

With the exception of the Register of Directors' Interests, Directors' service contracts, letters of appointment and indemnities, the documents referred to in the paragraph above will also be available for inspection at the offices of Linklaters LLP at One Silk Street, London EC2Y 8HQ from the date of the Notice of Meeting to the close of the meeting.

3. 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.

This section explains the proposed amendments to the Company's Articles of Association as referred to in Note 1.9 opposite.

Part A General

Provisions in the current Articles of Association of the Company (the "Current Articles") which replicate or relate to issues covered by provisions contained in the Companies Act 1985 or relate to issues covered by provisions contained in the Companies Act 2006 are in the main being amended to bring them into line with the Companies Act 2006. Examples of such provisions include those relating to the form of resolutions, registration of share transfers and the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below. Changes made to reflect this approach, which are of a minor, technical or clarifying nature have not been expressly noted below.

In addition certain other changes are proposed which do not relate to the Companies Act 2006 and these are also detailed below.

1. Definitions and clarifications

Certain definitions and terms used in the Current Articles are being amended to align them with the definitions used in the Companies Act 2006. In addition certain amendments are being proposed in order to clarify the definition of UK Listing Authority, clarify that the Listing Rules apply to any director's indemnity provided pursuant to the Articles of Association and clarify that treasury shares held can be transferred pursuant to employee share schemes.

2. Form of resolution

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being amended as the concept of extraordinary resolutions has not been retained under the Companies Act 2006. The Current Articles also contain provisions which require extraordinary resolutions for certain purposes and, accordingly, these requirements are being amended so that special resolutions are now required instead.

3. Share capital

The provisions of the Current Articles relating to the rights attaching to the 7.75p (net) cumulative Redeemable Preference Shares are being deleted due to such shares no longer being in issue.

4. Treasury shares

A provision of the Current Articles relating to treasury shares and the purchases by the Company of its own Shares has been superseded by Listing Rules 12.4.7 and 12.4.8, therefore the relevant provision has been deleted from the Current Articles.

5. Registration of share transfers

The Current Articles state that following any refusal by the Directors to register a transfer of shares, notice of such refusal must be given to the applicant within two months. The Companies Act 2006 makes it clear that such a notice must include the reasons for the refusal to transfer the shares and that this notice should be given as soon as possible (in any case within two months). The relevant provisions of the Current Articles are being amended to reflect this change in law.

6. Convening extraordinary and annual general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. In particular, a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

Explanatory notes of principal changes to the company's articles of association (continued)

7. Chairman's casting vote

The definition of an ordinary resolution in the Companies Act 2006 is new and refers to a resolution of the members being passed by a simple majority. This would appear to exclude the possibility of the Chairman of the Annual General Meeting being able to have a casting vote in his capacity as such. Therefore the provision in the Current Articles providing the Chairman of the Annual General Meeting with a casting vote is being removed.

8. Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The Companies Act 2006 also confirms that multiple corporate representatives may be appointed. The Current Articles are being amended to reflect all of these new provisions of the Companies Act 2006.

The Company is aware of concerns that have been raised about the effect of Section 323(4) of the Companies Act 2006 which provides that where a corporate shareholder appoints multiple corporate representatives and they exercise their powers to vote at a general meeting in different ways the power is treated as not exercised. The Company intends to take account of best practice to allow, as far as possible, multiple corporate representatives to attend general meetings of the Company and ensure their votes are counted.

9. Notice of board meetings

Under the Current Articles, while a director is abroad he is not entitled to receive notice of a board meeting. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It has been replaced with a more general provision that provides that notice does not have to be given to a director where it cannot reasonably be given or where a director has waived his right to such notice.

10. Borrowing Powers

In November 1999 in relation to the acquisition of the MES Businesses and again in May 2005 in relation to the acquisition of United Defense Industries, Inc. the Company passed an ordinary resolution which altered the borrowing limit set out in the Current Articles. It is proposed that the text of the Current Articles now be updated to reflect the effect of the ordinary resolutions passed.

11. Directors' indemnities

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors. In particular, a company that is, and a company that has an associated company that is, a trustee of an occupational pension scheme can now indemnify a director of the company that is a trustee of an occupational pension scheme against liability incurred in connection with the activities of the company that is the trustee, where such activities relate to the scheme. The amendments proposed to the Current Articles reflect the new provisions of the Companies Act 2006.

Part B

Conflicts of interest

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or may possibly conflict with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The amendments proposed to take effect on 1 October 2008 give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Amendments are also proposed relating to confidential information, attendance at board meetings and availability of board papers to protect a Director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors.

It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers to authorise conflicts are operated effectively and that the procedures have been followed.

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 the Resolutions in respect of their own beneficial holdings of ordinary shares in the Company and unanimously recommend other shareholders to do likewise.