

BAE SYSTEMS PLC
ANNUAL GENERAL MEETING
WEDNESDAY 4TH MAY 2011
QUEEN ELIZABETH II
CONFERENCE CENTRE, LONDON

FAQS

INTRODUCTION

The Company has produced this information sheet which provides answers to commonly asked questions about its business.

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| Q1 | How is the economic environment affecting the Company? | BAE Systems, like other major defence and security companies, faces a more challenging trading environment as governments look for cost savings to address budgetary pressures. However, the recent US and UK defence reviews have provided greater clarity on defence spending and priorities. BAE Systems continues to focus on its strategy to address higher growth sectors of the defence and security markets and deliver value through enhanced efficiency. |
| Q2 | Can the Company sustain its current rate of dividend in the current earnings environment? | The Board is recommending a final dividend of 10.5p per share, bringing the total dividend for 2010 to 17.5p per share, an increase of 9.4% over the prior year. The total dividend for 2010 is covered 2.3 times by underlying earnings from continuing operations. This is consistent with the Group's policy of growing the dividend whilst maintaining a long term sustainable cover of approximately two times. |
| Q3 | What does the Company intend doing about its pension obligations? | We are committed to funding our obligations to our pension schemes including addressing deficits in the funding through multi-year deficit funding agreements. Last year the Group's UK and US pension schemes received approximately £550m in excess of the accounting service cost. |
| Q4 | Is the Company intending to repeat last year's share buyback programme and how does a share buyback work? | <p>A share buyback or share repurchase is where a company buys its own shares to reduce the number of shares traded in the market. This benefits shareholders by increasing the proportion of profits, or earnings, attributable to each remaining share in circulation.</p> <p>In 2010 our good cash generation enabled a balanced deployment of capital combining acquisitions, pension deficit funding, good dividend growth and an accelerated return to shareholders through a share repurchase programme. A further repurchase of shares remains an option to address extended periods of balance sheet inefficiency.</p> |
| Q5 | What is your strategy for growth? | Our strategy for growth includes focus on higher growth sectors of the market such as Electronic Systems and Services activities in Readiness and Sustainment and Cyber and Intelligence. We are also focusing on broadening our already significant geographic footprint addressing higher growth markets such as India, both as part of the local defence industrial base and through export sales. |
| Q6 | A number of UK job losses have been incurred in the Company as a result of the Strategic Defence and Security Review (SDSR). Are there likely to be further job losses? | <p>We have been aware of the significant budget pressures on the Government for some time. Our early recognition of these pressures resulted in significant cost reduction and efficiency actions being taken in the last two years and this will continue in 2011. We have a strong record of reducing costs and responding to changes in customer requirements and we will continue to look at new ways to deliver value for money.</p> <p>We will also continue to work hard to ensure that the industrial skills and capabilities that underpin defence and security in the UK are sustained alongside the industry's global competitiveness.</p> |
| Q7 | In the context of current unrest in the Middle East, how does the Company view the SDSR? | <p>BAE Systems welcomed the clarity provided by the SDSR and we will continue to work constructively with the Ministry of Defence on the implementation of the Review.</p> <p>We recognise the Government had difficult decisions to take as part of the SDSR and we are fully prepared to respond to any requirements our customer may have.</p> |

Q8

In the light of job losses over the past year, how can the Company justify the recent salary increases for the executive directors and fee increases for the non-executives?

As a result of the current economic environment and the need to meet our customers' expectations, the Company has had to take some difficult decisions which have regrettably resulted in job losses. We continue to work hard to minimise any requirement for redundancy, for example in the UK we have established a Redeployment Forum which will focus on redeployment opportunities across UK based businesses and will also explore all other reasonable means of mitigating job losses. Whilst being sensitive to the issue of job losses, it is important that executive pay is competitively positioned to enable the Company to continue to attract, motivate and retain the highest calibre of individuals.

In addition, the level of the non-executive directors' fees is set after reviewing practice in other comparable companies and reflects the directors' time commitment and responsibility.

Q9

The Company made a commitment to report progress against the Woolf Committee's recommendations three years after their publication in May 2008. What progress has been made?

Our commitment to responsible behaviour is key to our culture of Total Performance – not just what we do, but how we do it – and to delivering our strategy and ensuring a sustainable and profitable business in the future.

Responding to the 23 recommendations in the Woolf Committee Report was an important step in embedding responsible behaviour across our global business.

Since the Report's publication:

- we have significantly strengthened our governance and business conduct related policies
- we have acted upon all 23 of the Report's recommendations – as we committed to do prior to its publication
- we have rolled out our Global Code of Conduct and supporting training outlining clear standards to all employees
- we have begun to develop our culture of Total Performance, based on clear values – trusted, innovative and bold – that will enhance the way we do business

The standards of business conduct expected of global companies continue to evolve and we are continuously looking at how to improve and become recognised as a leader in this area.

In accordance with recommendation 23 of the Woolf Report, we engaged an external independent expert (Ethical Leadership Group) to conduct an assessment of our progress against the Woolf recommendations. Their report concludes that 'we find BAE Systems has a solid business conduct program that includes many best practise components. There is also evidence of substantial progress over the last three years against the Woolf recommendations and we find that there are well designed processes and plans in place to ensure continued improvements'. We are pleased to have this confirmed and will incorporate the ELG observations and recommendations into our ongoing business conduct programme.

Q10

Why is the Company making a charitable payment to Tanzania and when will it be made?

The global settlement reached in February 2010 between the Company, the US Department of Justice (DoJ) and the UK Serious Fraud Office (SFO) included an agreement with the SFO which provided for a payment of £30m for the benefit of the people of Tanzania less any penalty imposed by the Court in connection with the agreed basis of settlement. A penalty of £500,000 (together with costs of £225,000) was imposed by the Court in December 2010. The remaining balance of £29.5m (together with interest) will be applied by the Company for the benefit of the people of Tanzania in accordance with the applicable Company policies, including those relating to business conduct and the making of charitable contributions. The Company is currently creating an advisory board comprising suitably qualified and experienced individuals to guide the Company as to the possible approaches to the realisation of this objective.

Q11

Why have three new directors been appointed to the Board since last year's AGM?

One of the main principles of the UK Corporate Governance Code is that the board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. To this end, the Nominations Committee regularly reviews the structure, size and composition of the BAE Systems Board and makes recommendations to the Board on any appropriate changes, including filling any vacancies for non-executive, and with the assistance of the Chief Executive, executive directors.

We needed to appoint a successor to our long-serving Group Finance Director, George Rose, who retired at the end of March 2011, and appointed Peter Lynas to this role with effect from the beginning of April 2011. The other two incoming directors, Harriet Green and Paula Rosput Reynolds, were appointed in November 2010 and April 2011 respectively to fill two non-executive directorship positions. Biographical details of the three directors appointed since last year's AGM can be found in the Notice of Meeting.

Q12

What is the Company's policy on non-audit services provided by its external auditor?

The Company believes that certain work of a non-audit nature is best undertaken by the external auditors, and the Audit Committee reviews regularly the amount and nature of non-audit work that the external auditor provides. The Company has recently reviewed its policy in relation to the undertaking of non-audit work by the external auditors and has implemented a revised policy.

The revised policy divides non-audit services into three categories, these being: (i) Prohibited Non-Audit Services which the external auditors are not permitted to undertake (eg financial information system design and implementation); (ii) Audit-Related Services (eg reporting required by law or regulation to be provided by the auditors but which does not form part of the audit itself); and (iii) Permitted Non-Audit Services (eg tax compliance services). Audit-Related Services and Permitted Non-Audit Services are subject to an approvals process, as are any other non-audit services which are neither prohibited nor specifically defined as Permitted Non-Audit Services.

Q13

Why has the Company dispensed with its Corporate Responsibility Report?

Disclosure regulation and best practice has grown substantially in recent years and it is now considered best practice to have an integrated report where the Corporate Responsibility report is incorporated into the Annual Report.

Our website has a dedicated Corporate Responsibility section which is regularly updated.

Q14

How does BAE Systems decide where to do business and which countries to export its equipment to?

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. The sale of export equipment is highly regulated and in addition, we will only pursue opportunities in accordance with our policies and governance systems and our Responsible Trading Principles. These include assessing carefully how we trade with the objective that neither BAE Systems nor our customers are exposed to significant reputational risk.

Q15

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 of the Annual Report.

Despite its length, we have endeavoured to provide "sign-posting" to facilitate navigation by shareholders through the document and last year's Annual Report was joint winner of the Best FTSE 100 Annual Report in the 2010 ICSA Hermes Transparency in Governance Awards.

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.