

NOTICE OF ANNUAL GENERAL MEETING 2012



This year's Annual General Meeting will be held at 11:00am on Wednesday 2nd May 2012 at The Queen Elizabeth II Conference Centre, London SW1P 3EE

This Notice of Meeting sets 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 all shareholders are urged to vote, whether they are able to attend the meeting or not.

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.
- By post – if you received the 2011 Report & 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 the Company has 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. We will provide responses to frequently raised topics 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.

A buffet lunch will be provided for shareholders attending the AGM.

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

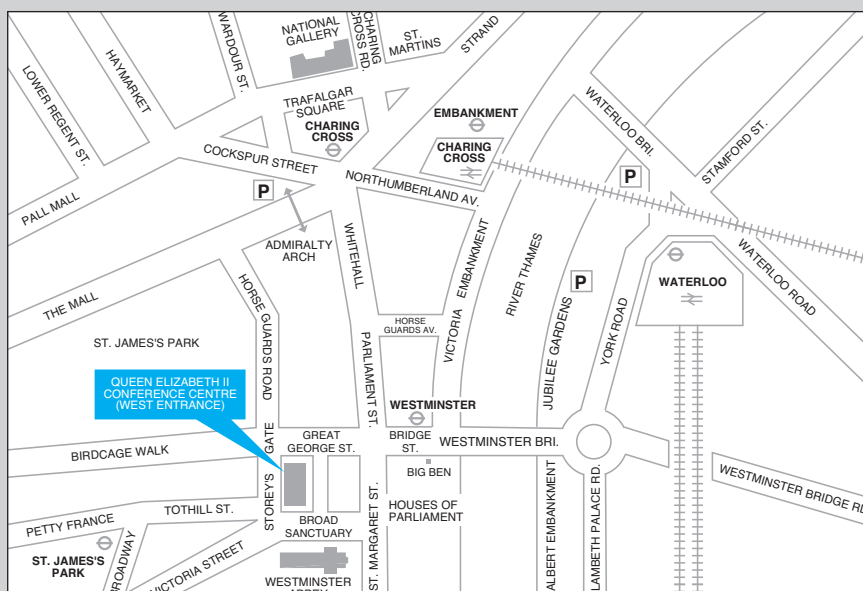
IMPORTANT

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



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 2 May 2012 at 11.00 am for the purpose of transacting the following business:

To consider, and if thought fit, to pass the following Resolutions 1-20, 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 2011 and the Directors' Report and Auditors' Report thereon now laid before this meeting be and are hereby received.

RESOLUTION 2 – Approval of the Directors' Remuneration Report

THAT the Directors' Remuneration Report for the year ended 31 December 2011 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 2011 of 11.3 pence per ordinary share be and is hereby declared payable on 1 June 2012 to Ordinary Shareholders whose names appeared on the Register of Members at the close of business on 20 April 2012.

RESOLUTION 4 – Re-election of director

THAT Paul Anderson be and is hereby re-elected a Director of the Company.

RESOLUTION 5 – Re-election of director

THAT Harriet Green be and is hereby re-elected a Director of the Company.

RESOLUTION 6 – Re-election of director

THAT Linda Hudson be and is hereby re-elected a Director of the Company.

RESOLUTION 7 – Re-election of director

THAT Ian King be and is hereby re-elected a Director of the Company.

RESOLUTION 8 – Re-election of director

THAT Peter Lynas be and is hereby re-elected a Director of the Company.

RESOLUTION 9 – Re-election of director

THAT Sir Peter Mason be and is hereby re-elected a Director of the Company.

RESOLUTION 10 – Re-election of director

THAT Richard Oliver be and is hereby re-elected a Director of the Company.

RESOLUTION 11 – Re-election of director

THAT Paula Rosput Reynolds be and is hereby re-elected a Director of the Company.

RESOLUTION 12 – Re-election of director

THAT Nicholas Rose be and is hereby re-elected a Director of the Company.

RESOLUTION 13 – Re-election of director

THAT Carl Symon be and is hereby re-elected a Director of the Company.

RESOLUTION 14 – Election of director

THAT Lee McIntire be and is hereby elected a Director of the Company.

RESOLUTION 15 – 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 16 – 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 17 – Political Donations

THAT

- (i) 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 (the "2006 Act") 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 2013 or 30 June 2013:
 - (a) to make political donations to political parties, and/or independent election candidates;
 - (b) to make political donations to political organisations other than political parties; and
 - (c) to incur political expenditure,

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

- (ii) all existing authorisations and approvals relating to political donations or expenditure under Part 14 of the 2006 Act are hereby revoked without prejudice to any donation made or expenditure incurred prior to the date hereof pursuant to such authorisation or approval; and
- (iii) words and expressions defined for the purpose of the 2006 Act shall have same meaning in this resolution.

RESOLUTION 18 – BAE Systems Share Incentive Plan

THAT the Directors be hereby authorised to continue to operate the BAE Systems Share Incentive Plan in accordance with the rules of the plan, which are summarised in the appendix to this Notice of Annual General Meeting, and a copy of which is produced to the Annual General Meeting and initialised by the Chairman for the purposes of identification.

RESOLUTION 19 – BAE Systems Executive Share Option Plan 2012

THAT the rules of the BAE Systems Executive Share Option Plan 2012 (the "ESOP"), the principal features of which are summarised in the appendix to this Notice of Annual General Meeting, and a copy of which is produced to the Annual General Meeting and initialised by the Chairman for the purposes of identification, be approved and the Directors be authorised to:

- (i) do all things necessary to operate the ESOP, including making such modifications as the Directors consider appropriate to obtain HMRC approval and to take account of the requirements of the UK Listing Authority and best practice; and
- (ii) establish further plans based on the ESOP but modified to permit participation by employees of any joint ventures of the Company who are not eligible to participate in the ESOP and/or to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the ESOP.

RESOLUTION 20 – Authority to allot new shares

THAT

- (i) the authority conferred on the Directors by Article 8(B)(i) of the Company's Articles of Association be renewed for the period ending at the conclusion of the Company's Annual General Meeting in 2013 or on 30 June 2013, whichever is the earlier, and for such period the Section 551 Amount shall be £26,981,064; and
- (ii) the Directors be and are hereby generally and unconditionally authorised pursuant to and in accordance with Section 551 of the 2006 Act to exercise all the powers of the Company to allot shares or grant rights to subscribe for or to convert any security into shares comprising equity securities (as defined in Section 560(1) of the 2006 Act) up to a further nominal amount of £26,981,064 in connection with an offer by way of a rights issue, such authority to expire at the conclusion of the Company's Annual General Meeting in 2013 or on 30 June 2013, whichever is the earlier but so that the Company may make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority ends.

The authorities in this Resolution apply in substitution for all previous authorities pursuant to Section 551 of the 2006 Act.

For the purposes of the authority in paragraph (ii) above, "rights issue" means an offer to:

- (a) ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
- (b) people who are holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities,

to subscribe further securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of any territory.

NOTICE OF ANNUAL GENERAL MEETING (continued)

To consider, and if thought fit, to pass the following Resolutions 21 to 23 which will be proposed as SPECIAL RESOLUTIONS:

RESOLUTION 21 – Disapplication of pre-emption rights

THAT subject to the passing of Resolution 20 above,

- (i) the power conferred on the Directors by Article 8(B)(ii) of the Company's Articles of Association be renewed for the period referred to in such Resolution and for such period the Section 561 Amount shall be £4,047,564. Such authority shall be in substitution for all previous powers pursuant to Section 561 of the 2006 Act; and
- (ii) the Directors be and are empowered to allot equity securities (as defined in Section 560(1) of the 2006 Act) wholly for cash pursuant to the authority given by paragraph (ii) of Resolution 20 above in connection with a rights issue, as if Section 561(1) of the 2006 Act did not apply to any such allotment, such power to expire at the conclusion of the Company's Annual General Meeting in 2013 or on 30 June 2013, whichever is the earlier but so that the Company may make offers and enter into agreements during this period which would, or might, require equity securities to be allotted after the power ends.

For the purposes of this resolution "rights issue" has the same meaning as in Resolution 20 above.

RESOLUTION 22 – Authority to purchase own shares

THAT the Company be and is hereby unconditionally and generally authorised for the purposes of Section 701 of the 2006 Act to make market purchases (as defined in Section 693 of the 2006 Act) of its 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 323,805,150;
- (b) the minimum price which may be paid for each share is 2.5p;
- (c) the maximum price which may be paid for each share is the higher of
 - (i) 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 (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange as stipulated in Article 5(1) of the Buy-back and Stabilisation Regulation; and
- (d) this authority shall expire at the conclusion of the Annual General Meeting of the Company held in 2013 or, if earlier, 30 June 2013 (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 23 – Notice of general meetings

THAT a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.

By Order of the Board

David Parkes
Company Secretary

29 March 2012

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 no later than 11.00am UK time on 30 April 2012. CREST members who wish to appoint proxies through the CREST electronic appointment service should refer to paragraphs 12-15 below.

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 the 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 of Members 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, together with the power of attorney or other authority (if any) under which it is signed, or a duly certified copy thereof, 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 6DA not later than 11.00am UK time on 30 April 2012, 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 13 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 no later than 11.00am UK time on 30 April 2012.
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 appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
9. The statement of 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.

NOTICE OF ANNUAL GENERAL MEETING (continued)

10. Entitlement to attend and vote at the meeting, and the number of votes which may be cast at the meeting, will be determined by reference to the Company's Register of Members at 6.00pm on 30 April 2012 or, if the meeting is adjourned, 48 hours before the time fixed for the adjourned meeting (as the case may be). 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 16 March 2012 (being the latest practicable business day prior to the publication of this Notice) the Company's issued share capital consisted of 3,587,560,298 ordinary shares and one special share. Holders of ordinary shares are entitled to attend and vote at general meetings of the Company. The voting rights of treasury shares (of which there were 349,508,793 as of 16 March 2012) are suspended. The holder of the special share is entitled to attend general meetings of the Company, but is not entitled to vote. Accordingly the total number of voting rights as of 16 March 2012 is 3,238,051,505. 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 a 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 (unless the proxy is appointed by more than one shareholder in which case the proxy has one vote for and one vote against if (a) the proxy has been instructed by one or more shareholders to vote for the resolution and by one or more other shareholders to vote against the resolution; or if (b) the proxy has been instructed by one or more shareholders to vote either for or against the resolution and by one or more other of those shareholders to use his discretion as to how to 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 (available via www.euroclear.com/CREST). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, 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 UK & Ireland Limited'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, Equiniti (ID RA19), no later than 11.00am on 30 April 2012, 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 Applications 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 UK and Ireland Limited 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 takes) 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 systems 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. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
17. Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company 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) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company 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.
18. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation of the meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
19. A copy of this notice, and other information required by s311A of the Companies Act 2006, can be found at www.baesystems.com/reporting.
20. Shareholders may not use any electronic address provided in this Notice or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

NOTES ON THE RESOLUTIONS

1. 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 79 to 100 and page 109 of the Company's Annual Report 2011.

1.2 Resolutions 4 to 13 – 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, and that all Directors appointed by the Board should seek election at the Annual General Meeting immediately following their appointment. The UK Corporate Governance Code requires all directors of FTSE 350 companies to be subject to annual election by shareholders. The Board has agreed that all Directors, whether or not required by the Articles of Association to seek re-election or election at the 2012 Annual General Meeting, will be subject to re-election or election at the 2012 Annual General Meeting.

The Chairman has confirmed that each of the Non-executive directors who are seeking re-election (being Paul Anderson, Harriet Green, Sir Peter Mason, Paula Rosput Reynolds, Nick Rose and Carl Symon), 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.

Sir Peter Mason has recently completed his third three-year term as a Non-executive director. Consequently, as required by the UK Corporate Governance Code, the Board has considered whether he is independent notwithstanding the fact that he has served as a director for more than nine years. The Board used its externally facilitated annual evaluation process to provide Board members with the opportunity to consider individually whether they believed that Sir Peter remained independent despite the length of time he has served on the Board. The results of this were provided to the Chairman and he discussed the matter collectively with directors without Sir Peter in attendance. The directors concluded that he remains independent and as such his appointment as Senior Independent Director and his membership of board committees should continue for a further period of 12 months to 21 January 2013. In reaching this decision, the Board noted that his period of office had not coincided to any significant degree with that of any of the current executive directors.

The Chairman himself is also seeking re-election to the Board. 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:

Paul Anderson – Non-executive director

Appointed to the Board: 2009

Nationality: US

Skills and experience: Paul Anderson has extensive global business experience in the energy and mining sectors. He spent more than 20 years in two spells at Duke Energy Corporation and its predecessor companies, culminating in his appointment as Chairman, President and Chief Executive Officer. He was subsequently Chairman of Spectra Energy Corporation until 2009 and in the intervening period he served as Managing Director and Chief Executive Officer of BHP and, subsequently, of the newly merged BHP Billiton.

Other appointments: Non-executive director of Spectra Energy Corporation and BP p.l.c.

Other past appointments: Non-executive director of BHP Billiton plc and Qantas Airways Limited

Committee membership: Chairman of the Corporate Responsibility Committee and member of the Nominations Committee

Harriet Green OBE – Non-executive director

Appointed to the Board: 2010

Nationality: British

Skills and experience: Currently Chief Executive Officer and executive director of Premier Farnell plc, a leading, high service, multi-channel technology distribution group, Harriet Green has significant global business experience having run volume distribution businesses in four continents including Asia

Pacific for Arrow Electronics as well as having functional responsibility for worldwide marketing, suppliers and strategy.

Other appointments: Non-executive director of Emerson Electric Co.

Committee membership: Corporate Responsibility Committee

Linda Hudson – President and Chief Executive Officer of BAE Systems, Inc.

Appointed to the Board: 2009

Nationality: US

Skills and experience: Appointed to the Board as President and Chief Executive Officer of BAE Systems, Inc., she was previously President of the Company's US-based Land & Armaments operating group. She joined the Company in 2006 from General Dynamics where she had worked since 1992 in a variety of roles culminating in her appointment as Corporate Vice President and President, Armament and Technical Products.

Other appointments: Member of the United Service Organizations Worldwide Board of Governors, the Blue Star Families Board of Directors, the Executive Committee of the Aerospace Industries Association, and engineering advisory boards for engineering programmes at the universities of Maryland and Florida.

Committee membership: Non-Executive Directors' Fees Committee

Ian King – Chief Executive

Appointed to the Board: 2007

Nationality: British

Skills and experience: Appointed as Chief Executive in 2008 having been originally appointed to the Board as Chief Operating Officer, UK and Rest of the World. He was previously Group Managing Director of the Company's Customer Solutions & Support business and, prior to that, Group Strategy and Planning Director. Prior to the BAe/MES merger he was Chief Executive of Alenia Marconi Systems, having previously served as Finance Director of Marconi Electronic Systems.

Other appointments: Non-executive director and Senior Independent Director of Rotork plc.

Committee membership: Non-Executive Directors' Fees Committee

Peter Lynas – Group Finance Director

Appointed to the Board: 2011

Nationality: British

Skills and experience: Peter Lynas, a qualified accountant, was appointed to the Board as Group Finance Director in April 2011. He previously served for a number of years as Director – Financial Control, Reporting & Treasury. He joined GEC-Marconi in 1985 having previously worked for other companies in the UK and Europe. After progressing through a number of management positions he was appointed Finance Director of GEC's Marconi Electronic Systems business, which was subsequently acquired by British Aerospace in 1999 to become BAE Systems.

Sir Peter Mason KBE – Non-executive director and Senior Independent Director

Appointed to the Board: 2003

Nationality: British

Skills and experience: Chairman of Thames Water and Senior Independent Director of Subsea 7 S.A., an international offshore engineering, construction and services contractor. Formerly Chairman and Chief Executive of Balfour Beatty Limited, and Chief Executive of AMEC plc, Sir Peter has extensive experience in engineering, construction and long-term contracting.

Other past appointments: Executive director of BICC and Chief Executive of Norwest Holst Group PLC.

Committee membership: Audit Committee, Corporate Responsibility Committee and Nominations Committee. Sir Peter is also the Senior Independent Director

Dick Olver – Chairman

Appointed to the Board: 2004

Nationality: British

Skills and experience: A chartered civil engineer with extensive experience of managing complex international engineering projects, he held a variety of senior management positions in the oil industry culminating in his appointment to the board of BP p.l.c. as CEO of Exploration and Production in 1998. Subsequently appointed deputy Group Chief Executive of BP in

NOTES ON THE RESOLUTIONS (continued)

2003, stepping down from that role when he assumed the chairmanship of BAE Systems.

Other appointments: Member of the Prime Minister's Business Advisory Group, Business Ambassador for UK Trade & Investment, and member of the Prime Minister's India/UK CEO Forum. Also a member of the Multinational Chairman's Group and the Trilateral Commission, a Fellow of the Royal Academy of Engineering and Chairman of the Education for Engineering (E4E) Policy Group, and advisor to HSBC and Clayton, Dubilier and Rice.

Other past appointments: Non-executive director of Thomson Reuters plc.

Committee membership: Chairman of the Nominations Committee and of the Non-Executive Directors' Fees Committee

Paula Rosput Reynolds – Non-executive director

Appointed to the Board: 2011

Nationality: US

Skills and experience: Ms Rosput Reynolds is Chief Executive Officer and President of the business advisory group, PreferWest, LLC. She had previously spent over 20 years in the energy sector in a variety of operational roles, culminating in her appointment as President and Chief Executive Officer of AGL Resources in 2002. She subsequently served as President and Chief Executive Officer of Safeco Corporation (Safeco), an insurance company located in Seattle, Washington, until its acquisition by Liberty Mutual Group in 2008. She was then appointed as Vice Chairman and Chief Restructuring Officer of American International Group Inc. (AIG) from October 2008 to September 2009, overseeing AIG's divestiture of assets and serving as chief liaison with the Federal Reserve Bank of New York.

Other appointments: Non-executive director of Delta Air Lines, Inc.

Other past appointments: Non-executive director of Coca-Cola Enterprises, Inc and Air Products and Chemicals Inc.

Committee membership: Audit Committee

Nick Rose – Non-executive director

Appointed to the Board: 2010

Nationality: British

Skills and experience: Nick Rose was, until October 2010, Chief Financial Officer of Diageo plc for over ten years where, in addition to his finance responsibilities, he was also responsible for supply, procurement, strategy and IT on a global basis. His financial experience has encompassed a number of roles since joining Diageo's predecessor company, Grand Metropolitan, in 1992, including group treasurer and group controller, having spent his earlier career with Ford Finance. He assumed the chairmanship of the Company's Audit Committee in August 2011.

Other appointments: Non-executive director of BT Group plc and Williams Grand Prix Holdings plc.

Other past appointments: Non-executive director of Moët Hennessy SNC and Scottish Power plc.

Committee membership: Chairman of the Audit Committee and member of the Remuneration Committee

Carl Symon – Non-executive director

Appointed to the Board: 2008

Nationality: US/British

Skills and experience: Carl Symon has an extensive background in global business operations and management, retiring in 2001 after a long career at IBM during which he held senior executive positions in the USA, Canada, Latin America, Asia and Europe, including that of Chairman and Chief Executive officer of IBM UK.

Other past appointments: Non-executive director of BT Group plc, Rexam PLC and Rolls-Royce Group plc, and Chairman of HMV Group plc.

Committee membership: Chairman of the Remuneration Committee

Michael Hartnall will be stepping down from the Board as a Non-executive director at the 2012 AGM and will not be offering himself for re-election.

1.3 Resolution 14 – Election of Director

Under the UK Corporate Governance Code the Board is required to set out the reasons for the election of non-executive directors. Lee McIntire was appointed to the Board in a non-executive capacity in June 2011. The Board

believes that Mr McIntire will bring a wealth of international experience to the BAE Systems Board, given his deep understanding of long-term international contracting, programme management and risk management, and that he will complement the existing capabilities and strengths of the BAE Systems Board.

The Company's Articles of Association require that all Directors appointed to the Board seek election at the Annual General Meeting immediately following their appointment. Following the appointment of Lee McIntire to the Board on 1 June 2011, he is required to seek election at this year's meeting.

The Board recommends that shareholders vote in favour of Mr McIntire's election to the board and his biographical details are as follows:

Lee McIntire – Non-executive director

Appointed to the Board: 2011

Nationality: US

Skills and experience: Lee McIntire is Chairman and Chief Executive of CH2M HILL, a leader in consulting, design, design-build, operations, risk management and programme management for public and private clients. Prior to joining CH2M HILL, he was an executive at Bechtel Group Inc, where he served on the board of directors and was Executive Vice President for the parent company.

Committee membership: Remuneration Committee

1.4 Resolution 17 – Authority to incur political expenditure

Part 14 of the Companies Act 2006 requires companies to obtain shareholders' authority for donations to registered political parties and other political organisations totalling more than £5,000 in any twelve month period, and for any political expenditure, subject to limited exceptions. The definition of donation in this context is very wide and extends to bodies such as those concerned with policy review, law reform and the representation of the business community. It could also include special interest groups, such as those involved with the environment, which the Company and its subsidiaries might wish to support, even though these activities are not designed to support or influence support for a particular political party.

It remains the policy of the Company not to make political donations or incur political expenditure as those expressions are normally understood.

However, the Directors consider that it is in the best interests of shareholders for the Company to participate in public debate and opinion-forming on matters which affect its business. To avoid inadvertent infringement of the Companies Act 2006, the Directors are seeking shareholders' authority for the Company and its subsidiaries to make political donations and to incur political expenditure during for the period from the date of the Annual General Meeting to the conclusion of next year's Annual General Meeting or 30 June 2013, whichever is earlier, up to a maximum aggregate amount of £100,000.

1.5 Resolution 18 – BAE Systems Share Incentive Plan

The Company currently operates the BAE Systems Share Incentive Plan (the "SIP") under which all employees of UK participating Group companies are given the opportunity to purchase shares and receive a corresponding award of matching shares, and to receive free shares. In line with good practice, the Directors are seeking shareholder approval for the continued operation of the SIP.

The principal terms of the SIP are summarised in the Appendix on page 9.

1.6 Resolution 19 – BAE Systems Executive Share Option Plan 2012

The Directors propose that a new executive share plan is approved by shareholders.

The principal terms of this plan, the BAE Systems Executive Share Option Plan 2012, are summarised in the Appendix on page 10.

1.7 Resolutions 20 and 21 – Authority to issue shares

Resolution 20 – Authority to allot shares

The purpose of Resolution 20 is to renew the Directors' power to allot shares.

The authority in paragraph (i) will allow the Directors to allot new shares and grant rights to subscribe for or convert any securities into shares up to a nominal value of £26,981,064 which is equivalent to approximately 33 per cent of the total issued ordinary share capital of the Company, exclusive of treasury shares, as at 16 March 2012, the latest practicable date prior to publication of this Notice.

NOTES ON THE RESOLUTIONS (continued)

The authority in paragraph (ii) will allow the Directors to allot new shares and grant rights to subscribe for or convert any securities into shares in connection with a rights issue up to a further nominal value of £26,981,064. This amount is equivalent to approximately 33 per cent of the total issued ordinary share capital of the Company, exclusive of treasury shares, as at 16 March 2012, the latest practicable date prior to publication of this Notice, and is in addition to the amount detailed in paragraph (i) of the resolution. This is in line with corporate governance guidelines. In accordance with those guidelines, the Board would seek re-election at the next Annual General Meeting if the authority in paragraph (ii) was used.

At 16 March 2012, the Company held 349,508,793 treasury shares which represents 10.79 per cent of the total number of ordinary shares in issue, excluding treasury shares, at that date.

There are no present plans to undertake a rights issue, or to allot new shares (other than in connection with employee share and incentive plans). The Directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to market developments and to enable allotments to take place to finance business opportunities as they arise.

If the resolution is passed the authority will expire on the earlier of 30 June 2013 and the end of the Annual General Meeting in 2013.

Resolution 21 – Disapplication of pre-emption rights

If the Directors wish to allot new ordinary shares and other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme) company law requires that these shares are offered first to shareholders in proportion to their existing holdings.

The purpose of paragraph (i) of Resolution 21 is to authorise the Directors to allot new ordinary shares and other equity securities pursuant to the authority given by paragraph (i) of Resolution 20, or sell treasury shares, for cash (a) in connection with a pre-emptive offer and (b) otherwise up to a nominal value of £4,047,564, equivalent to approximately 4.51 per cent of the total issued ordinary share capital of the Company including treasury shares as at 16 March 2012, in each case without the shares first being offered to existing shareholders in proportion to their existing holdings.

The purpose of paragraph (ii) of Resolution 21 is to authorise the Directors to allot new ordinary shares and other equity securities pursuant to the authority given by paragraph (ii) of Resolution 20, including the sale of treasury shares, for cash in connection with a rights issue without the shares first being offered to existing shareholders in proportion to their existing holdings. This is in line with corporate governance guidelines.

The Board considers the authority in Resolution 21 to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue without the need to comply with the strict guidelines of the statutory pre-emption provisions.

1.8 Resolution 22 – 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.

Authority is sought for the Company to purchase up to 10 per cent of its issued ordinary shares (excluding treasury shares), renewing the authority granted by the shareholders at previous annual general meetings.

Ordinary shares purchased by the Company pursuant to this authority may be held in treasury or may be cancelled. The minimum price, exclusive of expenses, which may be paid for an ordinary share is 2.5p, being the par value of an ordinary share. The maximum price, exclusive of expenses, which may be paid for each share purchased in the market is the higher of (i) an amount equal to 105 per cent of the average market value for an ordinary share for the five business days immediately preceding the purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange.

The number of ordinary shares which may be acquired pursuant to the authority is up to an aggregate of 323,805,150 ordinary shares, this being approximately 10 per cent of the issued ordinary share capital of the

Company (exclusive of treasury shares) as at 16 March 2012, the latest practicable date prior to the publication of this Notice. As at 16 March 2012 there were 33,792,641 options to subscribe for ordinary shares outstanding, representing 1.04 per cent of the Company's issued share capital (excluding treasury shares) at that date. If the authority was exercised in full, the options would represent 1.16 per cent of the Company's issued ordinary share capital (excluding treasury shares).

This authority will last until the earlier of the Company's Annual General Meeting in 2013 and 30 June 2013.

Pursuant to the Companies Act 2006, the Company can hold the shares which have been repurchased as treasury shares and either re-sell them for cash, cancel them, either immediately or at a point in the future, or use them for the purposes of its employee share schemes. This provides the Company with additional flexibility in the management of its capital base. No dividends will be paid on, and no voting rights will be exercised in respect of, treasury shares.

The Company has stated that, as part of the allocation of capital, it would expect to make accelerated returns of capital to shareholders when the balance sheet allows. The Directors currently intend that if any shares are bought back under this authority they will be held in treasury but retain the flexibility to cancel them if they consider this to be in the best interests of the Company.

The Company will only purchase ordinary shares if the Directors believe that it is in the shareholders' best interests and will increase earnings per share.

On 28 July 2011 the Company announced that in 2011 it would initiate a programme to return up to £500 million to shareholders by way of a market purchase of shares. The buy-back programme commenced on 28 July 2011 and ended on 8 December 2011, during which period the Company purchased 184,393,049 ordinary shares, amounting to a return to shareholders of approximately £500 million. These shares were purchased under the share buyback authority granted by shareholders at the 2011 AGM. The purchased shares are being held in treasury.

1.9 Resolution 23 – Notice of general meetings

Changes made to the Companies Act 2006 by the Shareholders' Rights Regulations increase the notice period required for general meetings of the Company to 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days. AGMs will continue to be held on at least 21 clear days' notice.

Before the coming into force of the Shareholders' Rights Regulations on 3 August 2009, the Company was able to call general meetings other than an AGM on 14 clear days' notice without obtaining shareholder approval. The Company has previously obtained shareholder approval to preserve the ability to call general meetings other than an AGM on 14 clear days' notice. Resolution 23 seeks approval of the renewal of this authority which will be effective until the Company's next Annual General Meeting in 2013, when it is intended that a similar resolution will be proposed.

The shorter notice period would not be used as a matter of routine for such meetings. However the flexibility offered by this resolution will be used where, taking into account all the circumstances, the Directors consider this appropriate in relation to the particular issues to be considered at the general meeting in question.

2. Documents for Inspection

The Register of Directors' Interests in the share capital of the Company, copies of the executive Directors' service contracts, the Chairman and non-executive Directors' letters of appointment, and the Directors' Indemnities, together with a copy of the rules of the BAE Systems Share Incentive Plan and the BAE Systems Executive Share Option Plan 2012, will be available for inspection during normal business hours on Monday to Friday each week (public holidays excepted) at the Company's registered office from the date of this 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.

A copy of the rules of the BAE Systems Share Incentive Plan and the BAE Systems Executive Share Option Plan 2012 will also be available for inspection during normal business hours on Monday to Friday each week (public holidays excepted) at the offices of Linklaters LLP at One Silk Street, London EC2Y 8HQ from the date of this Notice of Meeting to the close of the meeting.

NOTES ON THE RESOLUTIONS (continued)

3. Excluded Items

Certain items will not be permitted in the Annual General Meeting. These include bags, cameras, recording equipment, mobile telephones, items of any nature with potential to cause disorder and such other items as the Chairman of the Meeting may specify.

APPENDIX

(Share Incentive Plan)

Summary of the principal features of the BAE Systems Share Incentive Plan

Introduction

The Company considers it important for employees to have the opportunity to acquire shares in BAE Systems. The Company currently operates the BAE Systems Share Incentive Plan (the “**SIP**”) under which all employees of UK participating companies are given the opportunity to purchase shares and receive a corresponding award of matching shares, and to receive free shares. In line with good practice, the Company is seeking shareholder approval for the continued operation of the SIP. The terms of the amended SIP are materially the same as those of the existing plan.

The principal features of the SIP are set out below.

Overview

Under the SIP three types of shares can be offered to employees based in the UK – free, partnership and matching shares. The SIP rules contain all three elements, and the Directors have power to decide which, if any, of them should be implemented. At present SIP participants are offered free, partnership and matching shares and the current intention is that this will continue to be the case.

The SIP operates in conjunction with a trust, which holds shares on behalf of employees. The SIP has been approved by HM Revenue and Customs.

Eligibility

Executive directors and all employees of the Company and any subsidiaries designated by the Directors as participating companies are eligible to join the SIP if they are UK tax residents and have worked for the Company or a participating company for a qualifying period determined by the Directors, which may not exceed 18 months. Currently a qualifying period of 9 or 15 months is operated for free shares. There is no qualifying period for partnership or matching shares. When the SIP is operated, all eligible employees must be invited to participate.

Free shares

The SIP provides for the award of free shares worth up to a maximum set by the legislation (currently £3,000) to each eligible employee each year. The shares must generally be offered on similar terms, but the award may be subject to performance targets. “Similar terms” means the terms may only be varied by reference to remuneration, length of service or hours worked.

Free shares must be held in trust for a period of between three and five years at the discretion of the Company and will be free of income tax if held in trust for five years. If a participant leaves employment with the BAE Systems Group, his shares cease to be subject to the SIP. The shares may be forfeited if the participant leaves employment within three years of the award other than by reason of death, retirement, redundancy, injury or disability, or his employing company or business being sold out of the BAE Systems Group.

Partnership shares

The SIP provides for employees to be offered the opportunity to purchase shares out of monthly contributions from pre-tax salary of up to the maximum set by the legislation (currently £1,500 in each tax year, or 10% of salary if less). Employees can stop contributing at any stage. The employees’ contributions may be used to buy partnership shares immediately or accumulated for up to 12 months before they are used to buy shares. Where they are accumulated the price at which they are acquired is the lesser of the price at the beginning of the accumulation period and the end. Currently there is no accumulation period.

Partnership shares can be withdrawn from the SIP by the participant at any time, but there will be an income tax liability if the shares are withdrawn before five years.

Matching shares

The SIP provides that where employees buy partnership shares, they may be awarded additional shares by the Company on a matching basis, up to a current maximum of two matching shares for each partnership share (currently a one for one matching award up to £63 each month is offered).

Matching shares must be held in trust for a minimum of three years and will be free of income tax if held in trust for five years.

If a participant withdraws his corresponding partnership shares before the trustees have held them for three years, he will forfeit the linked matching shares. If the participant ceases to be employed within the minimum three year period (or within such shorter period as the Directors may decide) other than for a specified reason such as death, retirement, redundancy, injury or disability, or his employing company or business being sold out of the BAE Systems Group, his matching shares will be forfeited.

Dividends

The SIP provides that the Directors may permit any dividends paid on the free, partnership or matching shares to be re-invested in the purchase of additional shares, which must be held in the SIP for a period of three years.

Voting rights

Participants may be offered the opportunity to direct the trustees how to exercise the voting rights attributable to the shares held on their behalf. The trustees will not exercise the voting rights unless they receive the participants’ instructions.

Dilution limits

Commitments to issue new shares may not, on any day, exceed 10% of the issued ordinary share capital of the Company in issue immediately before that day when added to the total number of ordinary shares which have been allocated in the previous 10 years under the SIP and any other employee share plan operated by the Company. This limit does not include rights to shares which have lapsed or been surrendered. The limit includes any shares transferred out of treasury but only for as long as the Association of British Insurers requires treasury shares to be included.

Operation of the SIP

Free shares may only be awarded within 42 days of:

- the day on which the SIP is formally approved by HM Revenue and Customs;
- any announcement of results to the London Stock Exchange;
- any day on which changes to the legislation or regulations affecting the SIP are announced, effected or made;
- exceptional circumstances arising which justify an award of free shares; and
- the lifting of any restrictions which prevented the awarding of free shares during any period specified above.

Amendment provisions

Although the Directors will have the power to amend the provisions of the SIP in any way, the provisions relating to: the participants; the limits on the number of shares which may be issued under the SIP; the individual limit; the basis for determining a participant’s entitlement to shares or cash under the SIP or the adjustments of awards in the event of a variation of capital; and the amendment rule, cannot be altered to the advantage of participants without prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the SIP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the SIP or for the Company or any other members of the BAE Systems Group).

Amendments to a key feature of the SIP require prior approval of HM Revenue and Customs.

The Directors may also, without shareholder approval, establish further plans based on the SIP but modified to take account of overseas securities laws, exchange controls or tax legislation. New issue and treasury shares made available under such further plans will be treated as counting against any limits on individual or overall participation in the SIP.

General

Benefits under the SIP are not pensionable.

APPENDIX

(Executive Share Option Plan)

Summary of the principal features of the BAE Systems Executive Share Option Plan 2012

Introduction

As part of its performance incentive and reward strategy for senior Company executives, the Remuneration Committee of the Board (the “**Committee**”) wishes to introduce a new share plan, the Executive Share Option Plan 2012 (the “**ESOP**”). As detailed in the Directors’ Remuneration Report that forms part of the Company’s Annual Report 2011, the Committee believes that operating such a plan will strengthen the link between absolute share price improvement and reward outcomes. In 2012, in respect of the awards to be made under the ESOP to the executive directors of the Company conditional upon the passing of Resolution 19, vesting of the shares under option are to be conditional on the achievement of a performance condition measured over a three year performance period, starting on 1 January 2012 and ending on 31 December 2014. Such vesting will be determined by the Company’s total shareholder return (“**TSR**”), i.e. share price growth plus dividends, ranking relative to a comparator group of 12 other international defence and aerospace companies as shown in the table below. None of the shares vest if the Company’s TSR is below the median of TSRs achieved by the comparator group and 25% of the shares vest at median increasing on a straight line basis to 100% if TSR is in the top quintile (ie top 20%).

| | | |
|------------------|--------------------|---------------------|
| Cobham | L-3 Communications | Raytheon |
| Finmeccanica | Lockheed Martin | SAIC |
| General Dynamics | Meggitt | Thales |
| ITT Exelis | Northrop Grumman | United Technologies |

Options will lapse at the end of the performance period to the extent that the performance condition has not been satisfied. There will be no retesting. The Directors may waive or change a performance condition in accordance with its terms or if anything happens which causes them reasonably to consider it appropriate to do so.

The Directors may set different performance conditions from that described above in respect of future options which will be described in the Directors’ Remuneration Report in the Annual Report.

A summary of the principal features of the rules of the ESOP is set out below.

Grant of options

The ESOP will be administered by the Remuneration Committee of the Board or other authorised person(s), as appropriate (the “**Directors**”).

Any employee and executive director of the Company or any of its subsidiaries is eligible to participate in the ESOP.

The ESOP enables participants to be granted options over the Company’s shares, including HMRC-approved options. The option price will be set by the Directors. Although the ESOP allows for the grant of discounted and nil-cost options, it is currently intended that only options with an option price equal to the market value of the shares on grant will be granted under the ESOP.

An option will vest after a predetermined period of time (expected to be three years in the normal course), subject to the satisfaction of any performance condition, continued employment with the Group and clawback.

Options will normally be granted within 42 days after the announcement of the Company’s results for any period.

The ESOP may be terminated at any time and in any event no options under the ESOP may be granted after the tenth anniversary of the approval by shareholders.

In accordance with the Company’s normal grant timetable, ESOP options were granted to employees in March 2012. The options were granted subject to shareholders approving the ESOP rules at the Company’s AGM and, if such approval is not given, these options will lapse.

Performance condition

The vesting of options may be subject to the satisfaction of certain pre-determined performance conditions. The aim of this is to link the receipt of shares to a significant improvement in the performance of the Company over a three year performance period.

Any performance condition will be set by the Directors each time the ESOP is operated. For the options granted in 2012 to executive directors, the performance conditions detailed above will apply.

Individual limits

Under the ESOP rules, the market value of shares comprised in a participant’s option(s) granted in respect of any financial year may not exceed 400% of his annual basic salary.

Dilution limits

In any 10 year period, not more than 10% of the issued ordinary share capital of the Company may be issued or issuable under the ESOP and all other employees’ share plans operated by the Company. In addition, in any 10 year period, not more than 5% of the issued ordinary share capital of the Company may be issued or issuable under the ESOP and all other discretionary share plans adopted by the Company. These limits do not include options which have lapsed or been surrendered.

Options may also be satisfied using treasury shares. If such shares are used, the Company will, so long as required under the guidelines of the Association of British Insurers, count them towards the dilution limits set out above.

Exercise of options

Options will normally be exercisable, subject to any performance condition being satisfied, between the third and tenth anniversary of grant.

If a participant leaves employment due to ill-health, retirement, injury, disability, redundancy, death, the sale or transfer of their employing company or business out of the Group or, at the discretion of the Directors, for any other reason (“**Good Leaver Reasons**”), his options will either continue and vest on the normal vesting date or they will vest at the time of cessation. Performance conditions will be tested at the time of vesting and awards will then generally be pro rated to reflect the proportion of the performance period during which the participant was not in employment. Options will remain exercisable for a period of six months after which they will lapse.

If the participant leaves employment for any other reason than a Good Leaver Reason, his options will lapse.

Takeover, restructuring and variation of share capital

In the event of a takeover, scheme of arrangement, merger or other corporate reorganisation, participants may be required or allowed to exchange their options for equivalent options over shares in the acquiring company. Alternatively, participants will be able to exercise their options for a period of three months (or such other period determined by the Directors) after the relevant event. The options will be exercisable to the extent that performance conditions have been met as at the relevant event and will then be pro rated to reflect the acceleration of vesting, unless the Directors decide otherwise.

If there is a variation in the share capital of the Company, a demerger or a special dividend, the Directors may adjust the options and/or the option price in any way it considers appropriate.

Clawback

An option may be reduced, amended or cancelled if the Directors decide that: a participant has engaged in misconduct which ought to result in full or partial lapse or deferral of vesting; measurement of performance condition does not accurately reflect the Company’s level of performance over the option period (if applicable); or if there is a materially adverse restatement of the Company’s financial statements.

APPENDIX

(Executive Share Option Plan)

Amending the ESOP

Although the Directors have the power to amend the provisions of the ESOP in any way, the provisions relating to: the participants; the limits on the number of shares which may be issued under the ESOP; the individual limit; the basis for determining a participant's entitlement to shares or cash under the ESOP; the adjustments of options in the event of a variation of capital; and the amendment rule cannot be altered to the advantage of participants without prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the ESOP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the ESOP or for the Company or any other members of its Group).

General

Options are personal to the participant and may not be transferred or assigned, except with the prior consent of the Directors.

At the discretion of the Directors, options under the ESOP may be satisfied by paying participants a cash amount equal to the difference between the value of the shares and the option price.

Options under the ESOP are granted for no consideration. They are not pensionable.

HMRC-approved options

The ESOP contains an HMRC-approved schedule under which HMRC-approved options may be granted to participant over shares having a value up to £30,000. HMRC-approved options are granted on the similar terms as market value options described above except for any minor changes necessary to obtain HMRC approval.

Adjustments of approved options (in the event of a variation in the Company's share capital) and amendments to the approved schedule requires prior approval by HMRC.

