

NOTIFICATION OF BAE SYSTEMS ANNUAL REPORT 2011 AND AGM

This notice advises you that you can read the full BAE Systems Annual Report 2011 and Notice of Annual General Meeting online at: www.baesystems.com/reporting
It also provides a brief overview of our performance in 2011.



For more information on the benefits of e-communications see back page



Dear Shareholder,

I am writing to advise you that the Company's Annual Report for 2011 has been published together with the Notice of Annual General Meeting. These documents are available to be viewed on the Company's Shareholder Reporting website that you can access at:

www.baesystems.com/reporting

You will see from the Annual Report 2011 that BAE Systems maintains a well-defined strategy with a defence focus at its core, but with the flexibility to adapt to changes in the business landscape. In the current challenging business environment, the Group continues to take the actions the Board believes are necessary to remain competitive and to deliver value for shareholders.

The Board has recommended a final dividend of 11.3p per share making a total of 18.8p per share for the year, an increase of 7.4% over 2010. Subject to shareholder approval at the 2012 Annual General Meeting (AGM), the 2011 final dividend will be paid on 1 June 2012 to shareholders registered on 20 April 2012.

As was the case last year, the Company is utilising the electronic communications provisions that shareholders agreed several years ago which enable us to deliver documents to shareholders via our website. Environmental and financial savings will result from this.

On the back of this document you will find a guide to the Shareholder Reporting website. The Annual Report 2011 is provided on this site in a format that we hope will help you access easily the information you require from the Report. You will also find the Notice of Annual

General Meeting on the website. This year's meeting is to be held on 2 May 2012 at the Queen Elizabeth II Conference Centre, London starting at 11.00am. If you are unable to attend the meeting but wish to vote by proxy you can do so via the Shareholder Reporting website. Simply click on the shareholder voting icon and use the numbers on the enclosed card to access the voting system – even if you will be attending the meeting you can still vote by proxy and, if you wish, change your vote during the meeting. Alternatively, you can vote by proxy using the enclosed card.

The AGM is an important part of the Company's governance that allows shareholders to understand more about BAE Systems and ask questions on the resolutions that are to be put to the meeting. If, ahead of the meeting, you would like to ask a question in relation to the business to be discussed at the AGM, you can do so online on the Shareholder Reporting website. We will provide written answers dealing with those topics that feature most frequently in your questions. These will be published on the day of the AGM and be available to everyone attending the meeting; they will also be posted on our website.

Overleaf you will see the top-level financial figures in respect of the Company's performance in 2011 and an overview of the different businesses within the BAE Systems Group. This is just a brief summary and is not a substitute for the full Report that can be accessed online.

Finally, I would like to highlight the importance I place on communications with our shareholders and the central role the AGM plays in this. I want attendance at our AGM to be an interesting and worthwhile experience, allowing directors to report on their stewardship of the Company and to answer shareholders' questions on this. I hope as many shareholders as possible are able to attend and participate in the meeting on 2 May.

Yours sincerely

Dick Oliver
Chairman
29 March 2012

It is recommended that you read the full Notice of Annual General Meeting before taking a decision on how to vote at the Annual General Meeting. It is also recommended that you read the full BAE Systems Annual Report 2011. This notice does not set out the matters on which shareholders are being asked to vote at the Annual General Meeting and is not a substitute for such documents.

If you have sold or otherwise transferred all your shares in BAE Systems plc, please forward this document at once 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. If you have sold or otherwise transferred only part of your holding of shares, you should retain this document.

BAE SYSTEMS

BAE SYSTEMS AT A GLANCE

BAE Systems is a global defence, aerospace and security company with approximately 93,500 employees² worldwide. The Group delivers a full range of products and services for air, land and naval forces, as well as advanced electronics, security, information technology solutions and support services.

RESULTS IN BRIEF

Results from continuing operations	2011	Restated ¹ 2010
Sales ²	£19,154m	£22,275m
Underlying EBITA ³	£2,025m	£2,179m
Operating profit	£1,580m	£1,601m
Underlying earnings ⁴ per share:		
– including R&D tax benefit	45.6p	39.8p
– excluding R&D tax benefit	39.7p	39.8p
Basic earnings per share ⁵	37.0p	27.9p
Order book ⁶	£36.2bn	£39.5bn
Other results including discontinued operations	2011	2010
Dividend per share	18.8p	17.5p
Operating business cash flow ⁷	£634m	£1,187m
Net debt (as defined by the Group)	£(1,439)m	£(242)m

FINANCIAL KEY POINTS

- Headline sales² reduced by 14%
- Underlying EBITA³ of £2,025m (2010 £2,179m) impacted by:
 - a £160m charge in the first half on the Omani Offshore Patrol Vessel (OPV) programme
 - a £125m benefit from a UK Ministry of Defence settlement agreement
 - a £60m benefit from the increase in the carrying value of the Trinidad and Tobago OPVs upon agreement of a sale to the Brazilian Navy
 - deferred recognition of sales and profit relating to the formalisation of price escalation on the Salam Typhoon programme
- Benefit of 5.9p per share from an agreement with the UK tax authorities
- Underlying earnings⁴ per share broadly in line with 2010, excluding the tax agreement benefit
- Total dividend increased by 7.4% to 18.8p
- £500m market purchase of shares completed
- \$1.25bn (£0.8bn) debt financing completed

- 1 Restated following the classification of the Regional Aircraft line of business as a discontinued operation.
- 2 Including share of equity accounted investments.
- 3 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items.
- 4 Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and non-recurring items.
- 5 Basic earnings per share in accordance with International Accounting Standard 33, Earnings per Share.
- 6 Including share of equity accounted investments' order books and after the elimination of intra-group orders of £1.3bn (2010 £1.4bn).
- 7 Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.

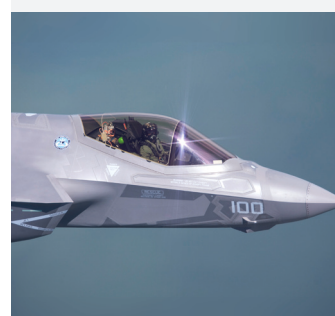
Electronic Systems

Electronic Systems comprises the US- and UK-based electronics activities, including electronic warfare systems and electro-optical sensors, military and commercial digital engine and flight controls, next-generation military communications systems and data links, persistent surveillance capabilities, and hybrid electric drive systems.

Principal operations

Principal markets

US
UK



Operational key points





- Sustained a leadership position in the electronic warfare market
- Increasing position in high growth commercial aircraft electronics market
- Winning key development contracts in the airborne persistent surveillance market
- Integration of the acquired Fairchild Imaging and OASYS businesses
- Continued focus on increasing productivity and efficiency
- Business recovery in process following disruption due to flood damage at the Johnson City facility

Sales²

£2,645m

Number of employees²

13,400

Cyber & Intelligence	Platforms & Services (US)	Platforms & Services (UK)	Platforms & Services (International)
<p>Cyber & Intelligence comprises the Group's cyber, secure government, and commercial and financial security activities within the US-based Intelligence & Security business, and the UK-headquartered BAE Systems Detica business.</p>	<p>Platforms & Services (US) comprises the US-headquartered Land & Armaments business, with operations in the US, UK, Sweden and South Africa, together with US-based services and sustainment activities, including ship repair and modernisation services.</p>	<p>Platforms & Services (UK) comprises the Group's UK-based air and maritime activities, and certain shared services activities, including the UK-based Advanced Technology Centre.</p>	<p>Platforms & Services (International) comprises the Group's businesses in Saudi Arabia, Australia, India and Oman, together with its 37.5% interest in the pan-European MBDA joint venture.</p>
US UK	US UK	UK	Saudi Arabia Australia India
			
<ul style="list-style-type: none"> – The US-based business continues to perform well on legacy programmes while securing strategic contract awards with existing customers – The US-based business continues to invest in differentiating technologies, such as activity-based intelligence and cybersecurity, including a leading edge network, operations and security centre environment, to maintain the relevance of its service offerings – Successful integration of acquired L-1 Intelligence Services Group, Norkom and ETI businesses – Growth of commercial sales in Detica offsetting lower UK government volume – Investment in UK Security Operations Centre 	<ul style="list-style-type: none"> – Increases in orders and sales in the Support Solutions business – Support business awarded a ten-year contract to manage, operate and maintain the US Army's Radford Army Ammunition Plant – Sales reduction in the land business due to lower Bradley reset/remanufacturing activity and completed Family of Medium Tactical Vehicles programme – Continued restructuring and efficiency activity in the land business – Participating in the technology development phase of the US Army's Ground Combat Vehicle programme – Business disposals of Swiss-Photonics, Advanced Ceramics and Composite Structures complete, and Safety Products disposal announced 	<ul style="list-style-type: none"> – Settlements reached on terminated Nimrod and Harrier programmes – Rationalisation and efficiency activity ongoing within Military Air & Information – 45 Typhoon Tranche 2 aircraft delivered to partner nations and first F-35 production aircraft accepted by the US Air Force – Block construction continued on the first aircraft carrier and first steel cut on the second – Fourth Type 45 destroyer accepted off contract – Brazilian Navy to acquire the three cancelled Trinidad and Tobago Offshore Patrol Vessels (OPVs) – Higher than planned costs to complete the Omani OPVs – Ambush, the second Astute-class submarine, undertaking commissioning 	<ul style="list-style-type: none"> – Additional budgets approved on the Salam Typhoon programme – Salam price escalation negotiations continue into 2012 – Customer budgets established for the next five years of support on the Saudi British Defence Co-operation Programme – First Saudi Typhoon squadron operational – First Royal Australian Navy Landing Helicopter Dock hull launched – New UK missile development order received by MBDA – Typhoon not selected as lowest priced compliant bid for India – Request for proposal from Oman for Typhoon and associated support
£1,399m	£5,305m	£6,258m	£3,794m
8,900	24,100	29,000	15,900

Cautionary statement: All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of BAE Systems and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of BAE Systems or the markets and economies in which BAE Systems operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. BAE Systems plc and its directors accept no liability to third parties in respect of this report save as would arise under English law.

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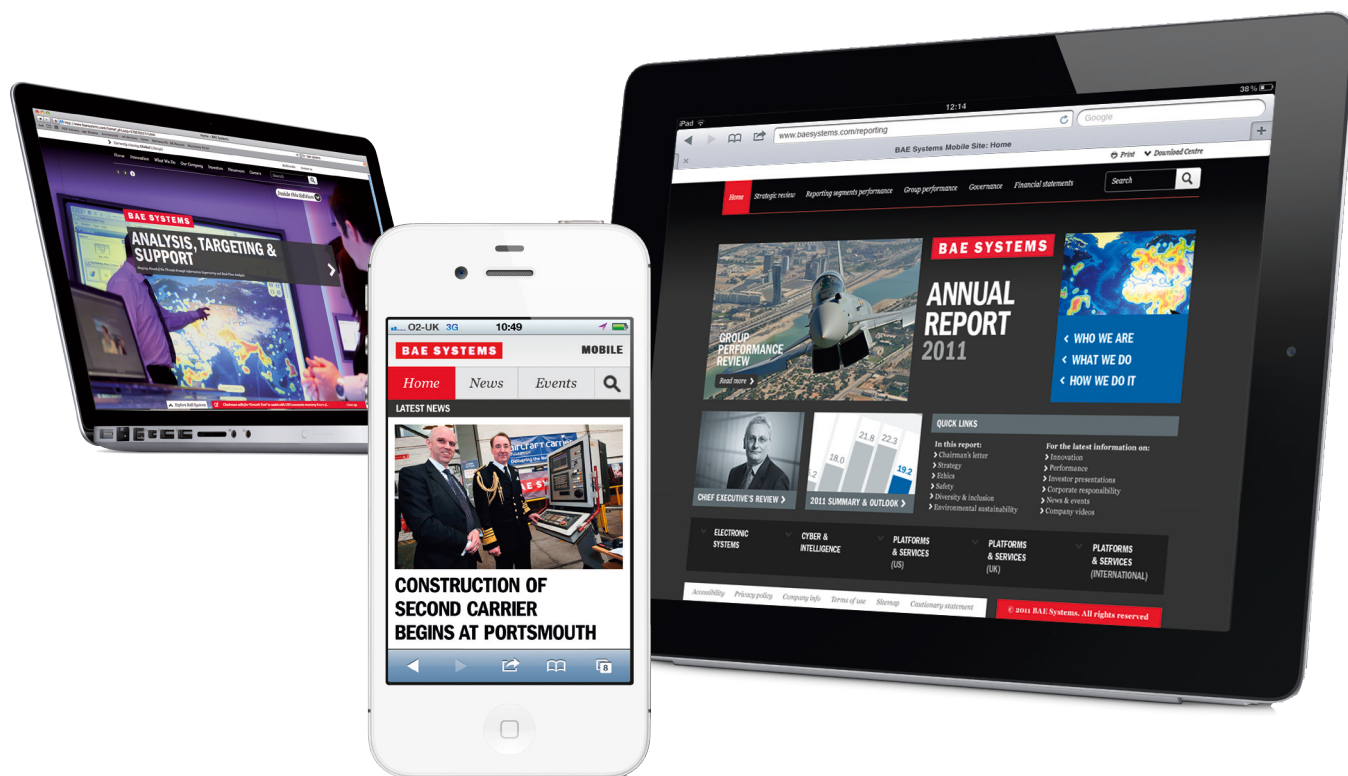
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ONLINE CORPORATE REPORTING BENEFITS:

- The Annual Report 2011 is accessible in pdf or interactive format
- Search the Annual Report for key information and access links for further information
- Corporate responsibility information is integrated into the Annual Report
- Access the Notice of Annual General Meeting and vote online

VISIT: WWW.BAESYSTEMS.COM/REPORTING



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