

## **THE BAE SYSTEMS PLC ANNUAL GENERAL MEETING**

**WEDNESDAY 7 MAY 2008**

### **SPEECH BY DICK OLVER, CHAIRMAN BAE SYSTEMS**

Good morning, ladies and gentlemen, and welcome to the BAE Systems 2008 Annual General Meeting. As you will have noted in the 2007 Annual Report, it has been a good year for the Company. Mike, the Executive team, and our 97,000 employees have worked together to successfully execute our strategy, deliver on our program commitments and position your Company for future growth.

I welcome each one of you here and look forward to using this meeting to take the opportunity to update you on your company's performance in the past year, our strategy for the future and to also say a few words about the governance of the Company. We will then deal with the formal resolutions detailed in the Notice, and most importantly, I want to make sure we give enough time to hear your thoughts, and answer any questions you may have on how we are managing the business.

After I have said a few words I will invite the Chief Executive, Mike Turner, to give us a presentation, and at the end of that I will invite you to ask questions and share your views.

I am going to listen, and I ask that you do the same; allow others to ask their questions and to have them answered without interruption.

I'll begin by introducing the other members of the Board to you.

Firstly, I'm very pleased to introduce two directors who have joined the Board since last year's AGM.

Andy Inglis – who is seated on my left - was appointed to the Board in June last year to serve as a non-executive director. Andy brings to the Board a wealth of international project management experience gained with BP plc, where he is a director and Chief Executive of their Exploration and Production business.

On my far right is Ravi Uppal, who was appointed a non-executive director of the Company in February. Ravi is President of Global Markets for the engineering company ABB. He brings with him substantial business experience in Europe, the Middle East and in India, which I've no doubt will be put to good use by the Board.

I look forward to the continuation of the contributions that these two individuals are already bringing to our Board as we look to deepen and expand our global footprint.

In accordance with our Articles of Association, both Andy Inglis and Ravi Uppal are required to seek shareholder election at this, the first AGM following their appointments by the Board.

In addition, Peter Weinberg will be retiring from the Board at the end of this meeting, to devote more time to his rapidly growing financial services firm, Perella Weinberg. I would like to take this opportunity to thank him on behalf of the Company for his time and his valuable contributions to the Board during his tenure. Thank you Peter.

I will just complete introducing the Board:

- To my right is Mike Turner, our Chief Executive. This is Mike's last AGM before he retires later in the year.....I will say more about his contributions to the success of this Company in a few moments.

- Next to Mike is George Rose, the Group Finance Director
- Next to him Michael Hartnall, Chairman of the Audit Committee.
- Then Walt Havenstein, COO and President of BAE Systems Inc in the US.
- Then Peter Weinberg. Peter has to date been the Chairman of the Corporate Responsibility Committee. With his retirement Andy Inglis will take on this responsibility.
- And Ravi Uppal.
- Turning to my left we have the company secretary, David Parkes.
- Then Sir Peter Mason, whom the Board has nominated to be our Senior Independent Director.
- Ian King, Chief Operating Officer for the UK and Rest of World.

- Sir Nigel Rudd. Nigel chairs the Remuneration Committee.
- Last but one is Phil Carroll, a non-executive director
- And Andy Inglis.

One director, Roberto Quarta, is unable to be with us today, as he is overseas in China.

And finally, we are in the process of recruiting an additional non-executive director to join the board and I look forward to reporting the outcome of our search activity shortly.

Now, turning to the Company ...

Because of the Company's delivery of strong financial performance in 2007, the Board has recommended a final dividend of 7.8 pence per share. If you approve the payment of this dividend later in the meeting, you will receive at total 12.8 pence per share for the full year – this is an increase of 13.3% from last year. At this level annual earnings are covered 2.4 times by underlying earnings.

Turning to this year, BAE Systems plc has today issued its first interim management statement in accordance with new UK regulatory requirements. The statement relates to the period since the start of 2008.

We report that BAE Systems has continued to progress well, building on the strong performance of 2007 and with the Group's large order book providing excellent forward visibility. Trading for the period has been consistent with management expectations at the time of the preliminary results announcement in February. The additional order intake of approximately \$ .8bn received for mine protected vehicles, has further enhanced the near term outlook for the Land & Armaments business. And the sale of the Surveillance and Attack business for \$ 240m (dollars) was completed in the period, generating a profit on disposal of £61m (pounds).

As announced last month, a reduction in the UK military aircraft workforce is to be undertaken to reflect anticipated changes in the nature of the workload in that sector; these resultant costs will not, however, impact our outlook for the year. For the Group as a whole, a further year of good growth is anticipated for 2008.

This is solid evidence of delivering tangible shareholder value, for which we should thank the 97,000 strong team of skilled and dedicated employees led by Mike Turner and our Executive Team.

Ensuring that these employees have a safe and secure working environment is something that the Company takes very seriously, and I'd like to draw your attention to this year's leadership objectives in Safety, which are published in our 2007 Corporate Responsibility Report. They include the development of a four-year plan to achieve safety performance on a par with the best of global companies. Safety objectives are underpinned by specific executive remuneration targets, and this is again an example of a company committed to continuous improvement as it expands and evolves.

Another aspect important to our employees is that of succession. The Board has paid careful attention to succession planning to ensure that we've got the right senior management bench strength to ensure continued good performance for the company.

Nowhere is this more important, than in the succession of the Chief Executive, which has been the Board's major focus for the last six months since Mike's retirement announcement in October. The Board is committed to identifying the best possible candidate for the role, and as you'd expect from a world-class company, we have a robust process in place to achieve this.

We have appointed a search firm, and we have benchmarked very strong internal successors against potential candidates from outside the Company. We've got the shortlist, and are on target to make an announcement before our interim results on August 1st.

I'll be happy to take questions on any aspect of this important process when we turn to the Q&A.

Let me turn now to our strategy, which Mike will expand on in more detail. Ours is a sound strategy – to deliver sustainable growth in shareholder value by being the premier global defence and aerospace company. In addition to continuing to improve our programme, cost and schedule performance, we are executing on our plan to deliver growth through our Home Markets strategy, continuing to develop an indigenous defense industrial presence in each of our six Home Markets.

Some highlights - In the latter half of last year, we completed our acquisition of Armor Holdings in the United States, advancing our access to the tactical wheeled vehicle sector, and affirming our position as the leading land systems business in the world. We also announced the acquisition of MTC, an aircraft modernization and repair business which will give us the capability to grow in the support sector in the US.

Here in the UK, we are transforming our businesses, and partnering closely with our customer to deliver more capability to the frontline at a lower cost. We continue to seek ways to develop our thru-life support activities, as with the ATTAC Tornado Availability Contract, which we expect will save over £500M to the UK taxpayer.

In the Kingdom of Saudi Arabia, we signed a contract for the delivery of Typhoon aircraft, and are delivering on our commitment to invest in and develop the Saudi industrial base, including our Saudi workforce.

And in Australia we announced our agreement to acquire Tenix Defence, a leading Australian defence contractor, more than doubling our presence in that market. We've also made acquisitions in Sweden and South Africa, further developing our indigenous capability in each of our current Home Markets.

We continue to look at new Home Market opportunities in high growth Asian economies, and are focusing on India.

We recently confirmed our intention to form a JV with Mahindra & Mahindra in Land Systems, and have a number of other activities in that market underway.

Our global strategy is delivering return to you, our shareholders, as we continue to build the Group's capabilities, balancing our geographic portfolio, as well as expanding our product portfolio.

We are meeting our commitments to our customers, responding rapidly to Urgent Operational Requirements, and supplying the services and equipment that the men and women currently serving their countries depend upon to do their jobs. This is our business, and our employees have excelled this year in delivering first rate operational and financial performance for you, the owners of the business.

Our track record in this regard has greatly enhanced our reputation for performance and delivery with our government customers and the governments of our allies.

However, we recognize that the Company has stakeholders in addition to its owners and its government customers, including its employees, the men and women on the frontline whose lives are protected by the equipment we supply, and the general public.

We are concerned to ensure that we address our reputation with all our stakeholders more effectively than we have in the past. As a company with a strategy of pursuing global growth, we recognize that we must do better to promote and defend our reputation. I'd like to address this issue now, and I know that Mike has a few words to say as well.

Let me be clear about one thing from the very start. Your Company's policy has always been to abide by the law. That is a minimum standard that the Company has always applied. I and my fellow directors have no reason to believe that the Company has broken the law. Despite a thorough investigation by the SFO, an investigation now in its fourth year, the Board and the Executive have not been presented with any evidence that the Company has done anything that would constitute a criminal offence. The Company is committed to supporting the cause of anti-corruption and to ensuring that it conducts its business accordingly.

Lord Justice Moses made an observation in his recent judgment concerning aspects of the SFO investigation.

Let me read this out to you: “The cause of anti-corruption is not served by pursuing investigations which fail to distinguish between a commission and a bribe. It would be unfair to BAE to assume that there was a realistic possibility, let alone a probability, of proving that it was guilty of any criminal offence”. In the circumstances, the Company respectfully agrees and would welcome the opportunity for a dialogue aimed at bringing this long-running investigation to a timely and appropriate conclusion. We would support the new director of the SFO in a decision to undertake a thorough review, along with QCs, of all the outstanding cases at the right time.

Again, as I said, upholding the law is a minimum standard. Do we believe that the Company has had to change and keep on changing? Yes. The fact of the matter is – regardless of that observation by Lord Moses, the Company's reputation has been damaged by the allegations made against it. We recognize that, and have been working to address that. This is what our shareholders would expect of a global Company committed to improving its performance in every way.

Let me tell you about some of the specific initiatives we have been taking to prevent activities which could negatively impact the organization's reputation and its values.

- In June of last year we asked Lord Woolf, the former Lord Chief Justice of England and Wales to lead an independent external committee to review the Company's ethical business conduct. More on that in a few moments.

- We have once again conducted a review of all our international advisors. Over the last 12 months we have implemented a process whereby each advisor must be recommended by a panel chaired by an external attorney and approved at the Executive level.
- We have introduced specific Executive Leadership objectives on ethics, safety and diversity in the performance review criteria for every member of the senior executive population.
- This year, we have reinforced the importance of ethics and safety by basing 12% of the annual executive bonus on objectives which will drive performance and improvement in ethics and safety.
- And we are developing a single, global code of ethical business conduct in one document, which will be introduced on 1<sup>st</sup> January 2009. The Code will establish a uniform, globally applicable set of ethical business standards which will apply to all 97,000 employees wherever they operate.

In the course of responding to the Woolf Committee's many questions of us over the last nine months, we have explained that the Company has entered into binding contracts, and accepted terms and conditions that have constrained its ability to be as transparent as our stakeholders would expect. The Company cannot and will not breach its obligations with regard to confidentiality and the protection of state classified information.

However, that should not prevent the organisation clearly explaining the way in which it conducts its day to day business activities. Security arrangements, for example, do not stop a company from communicating the way it does business. We've begun that in this year's Corporate Responsibility report, but we can and will be more transparent and make publicly available our policies and processes relating to ethical business conduct.

We'll never be able to prevent the making of allegations, particularly in an industry which provokes such an emotional response from those who are opposed to its very existence. We must, however, be in a position wherever possible to show when such allegations are groundless, through greater transparency, and by ensuring that our business activities and terms support that objective.

As you know, in June of last year, the Board asked Lord Woolf to lead an independent and external committee to review the policies and practices related to the Company's ethics and our business conduct. We committed, at that time, to act on each and every recommendation that the Committee made. Let me remind you that this was a very bold, and perhaps unprecedented move that the Board agreed to undertake entirely of its own volition. To require full publication of the report, and to accept unknown recommendations in advance, is exceptional.

We received the report, and the recommendations at 7:00 a.m. yesterday. The Board and the Executive team have been reading it through, and just let me repeat – we will act on each of the recommendations you see here in this report.

I'd like to take this opportunity to publicly thank the Committee for their work. We asked for a thorough assessment of where we stand today, and for recommendations as to what we need to do in future, as the company evolves, in order to be the industry leader in business ethics. The report is comprehensive, and its recommendations are demanding. This is what we expected, and this is what we will respond to. I hope that you will all take the opportunity, if you have not done so already, to read the report yourselves – information on how you can get a copy is available just outside.

Observation #1: We asked in our terms of reference for the Committee to assess the Company against others in our industry. The Committee has recognized that we are a global company, seeking to become a global leader in its sector. It has rightly observed that global companies have an increased level of responsibility to their communities and the employees, and they have rightly assessed our ethical business policies and processes against best practice in global companies. I welcome, and recognize that while the defence industry does have some unique attributes and constraints pertaining to national security, we must ensure that where we can be more open, we will be.

Observation #2: The Committee has recognized that the Company has made progress in recent years, particularly in regards to our efforts to develop a single code of conduct to ensure alignment across our home markets, and our advisor vetting and due diligence process, which it has said “meets or exceeds the critical elements of such a process identified by us as representing best practice in a global company”. It challenges us to go even further in these areas, and it points out that if we are to uphold the public trust, we must be do a better job of communicating this forward progress to our stakeholders. We will.

Observation #3: The Committee identified the need for the Company to ensure that adequate governance arrangements are in place to effectively manage reputational risk through high levels of ethical business conduct. We are keenly aware that the public perceptions and expectations of what is appropriate business behavior evolve over time. We accept this, and commit to ensuring that we continually assess our performance against evolving expectations, as well as evolving business conditions. This is good for our reputation, and good for our long-term business aspirations. And it is what the shareholders expect of a world-class company.

This is a thorough document, which we believe should set a standard not only for the defence and aerospace industry, but for global industry. It will take us time to read through the report fully and thoughtfully, and to develop a plan to act on each and every recommendation.

This action plan will be made public, as will our progress against the action plan.

By acting on each and every one of the Recommendations made by the Committee, we expect we will set the pace for ethical business behavior. This is what we set out to do when we appointed Lord Woolf to lead the Committee, and I look forward to updating you on our progress against the Recommendations next year at this time.

Now, before we turn to your questions and observations, I will now ask Mike Turner to say a few words on the Company's performance in 2007 and goals for 2008.

Thank you Mike.

As I said earlier, this is Mike's last AGM - and I think you must have attended 14 as a director of the Company and 7 as Chief Executive – this at the end of a career spanning 42 years with the Company.

Mike, during your time as Chief Executive, the Company and its shareholders have enjoyed a period of great success. BAE Systems has been transformed from an underperforming largely British aerospace and defence company into one of the World's most highly rated defence companies. Your legacy is a broadly based company, operating globally with a major presence in the huge US defence market and a world class supplier to all services - air, land and sea. The scale is impressive, and testament to your priority in delivering continuous improvement, high performance, and shareholder value.

Thank you.

I now invite Ted Awty, of our auditors, KPMG Audit Plc, to read from the report of the Auditors to the members, as printed in the Report and Accounts. This is the last time that Ted will perform this duty as, in line with audit regulation and good governance, he is standing down as the senior audit partner responsible for the Company's audit. He will be replaced by Tony Cates, another partner within KPMG.

Thank you Ted. The Report and Accounts has been made available to all members and the Directors have nothing to add to the document circulated.

Turning to the business of the meeting. You should all have a copy of the Notice of Meeting and I now formally propose all of the resolutions as shown in the notice with the exception of Resolution 5, which concerns my own re-election. Because of my interest in this resolution I shall ask Sir Peter Mason to momentarily take the chair.

Sir Peter Mason – “Thank you. I am happy to formally put Resolution 5 concerning Dick Olver’s re-election as a Director to this meeting, and if later shareholders wish to ask questions on this resolution, I will take the chair whilst these are dealt with.

Dick Olver – Thank you. We will take questions on the resolutions shortly and after questions have been taken, I will ask you to vote on the resolutions.

Voting will be by way of a poll. For this you will need a poll card. For most of you this card was enclosed with the notification you received of this meeting. Otherwise you should have been given one when you registered earlier today. If you don’t have one, please inform one of the stewards.

At the end of the meeting I will ask you to vote on the resolutions. Simply put a cross in the 'For' or 'Against' box on your card. Once you have voted please sign and date the card and after the meeting has finished deposit it in one of the ballot boxes that are just outside. If you wish to receive the result of the polls by post please let the Shareholder Information Desk have your details. The results will also be posted on our website.

Before taking questions I want to make sure you are aware of some of the issues raised by shareholders who are not able to be with us today. This year we asked all shareholders to let us know if they had any issues they wished to raise and we said that we would publicly answer the most frequently asked questions. You should have found on your seat this morning details of these frequently asked questions and the answers the Company has given – we have also published this on our website.

As you may have noticed when you arrived this morning we have changed the way in which you can participate in the meeting – we hope the changes will make it easier for those of you who have questions you want to ask.

A number of you registered to ask a question before the meeting started – I will take those questions first. If you didn't register before the meeting you can still ask a question – simply go up to one of the two question points in the middle of the room and let one of the stewards know you want to ask a question. You can then sit in the seats provided whilst awaiting your turn at the microphone. I'll take the first question from Question Point A.

[Q&A's]

That concludes questions and I will now deal with how to vote on the resolutions.

But first, it's best practice that shareholders are advised of the votes submitted by shareholders prior to the meeting.

There figures show a clear majority of votes in favour of all the resolutions.

On the screen you will see details of the votes cast by proxy.

However, the proxy figures are not the final results - although they are a very good indicator – the final results will only be available after you have voted. If you sent a proxy card in ahead of the meeting you can, if you wish, vote again today, changing your original instructions and your original card will be disregarded.

If you wish to receive the result of the polls by post please let the Shareholder Information Desk have your details.

Can I now ask you to vote on the resolutions by completing your poll cards. Once completed you should deposit them in the ballot boxes as you leave the meeting.

That concludes the business of the meeting. Therefore, I now declare the meeting closed.

Lunch will now be served next door.

Thank you all for attending.