

Other statutory and regulatory information

Principal activities

The BAE Systems Group delivers, through its wholly-owned subsidiaries and equity accounted investments, a full range of products and services for air, land and naval forces, as well as advanced electronics, information technology solutions and customer support services.

Directors

The current directors who served during the 2007 financial year are listed on pages 54 to 55. Of those directors, Ian King was appointed to the Board on 1 January 2007, Walt Havenstein on 2 January 2007 and Andy Inglis on 13 June 2007. On 16 October 2007 the Company announced that Mike Turner, the Chief Executive, would be retiring at the end of August 2008.

The following directors also served on the Board in 2007 from 1 January 2007 to the date of their retirement as stated below:

Director	Date retired from the Board
Professor Sue Birley	9 May 2007
Dr Ulrich Cartellieri	26 September 2007
Chris Geoghegan	31 December 2007
Steve Mogford	9 May 2007

Dividend

An interim dividend of 5.0 pence per share was paid on 30 November 2007. The directors propose a final dividend of 7.8p per ordinary share. Subject to approval of the shareholders, the final dividend will be paid on 2 June 2008 to shareholders on the share register on 18 April 2008.

Annual General Meeting (AGM)

The Company's AGM will be held on 7 May 2008. The Notice of Annual General Meeting is enclosed with this Annual Report and details the resolutions to be proposed at the meeting.

Office of Fair Trade undertakings

As a consequence of the merger between British Aerospace and the former Marconi Electronics Systems businesses in 1999, the Company gave certain undertakings to the Secretary of State for Trade and Industry (now the Secretary of State for Business, Enterprise and Regulatory Reform). In February 2007, the Company was released from the majority of these undertakings and the remainder have been superseded and varied by a new set of undertakings. Compliance with the undertakings is monitored by a compliance officer. Further information regarding the undertakings and the contact details of the compliance officer may be obtained through the Company Secretary at the Company's registered office or through the Company's website.

Supplier payment policy

It is Group policy that each business unit is in compliance with local best practice in the country of operation in respect of supplier payment policies. Agreed payment schedules are maintained provided that the supplier complies with all relevant terms and conditions. It is Group policy that changes to the agreed payment schedule are only made with the prior agreement of the supplier.

The average number of days credit provided in 2007 by suppliers was 39 days (2006 37 days).

Charitable donations

During 2007, the amount donated for charitable purposes in the UK was £1.4m (2006 £1m). Further details of the Company's charitable activities are set out on page 40.

Political donations

No political donations were made in 2007.

Structure of share capital

As at 31 December 2007, the Company's authorised share capital of £180,000,001 comprised 4,450,000,000 ordinary shares of 2.5p

each, 275,000,000 7.75p (net) cumulative redeemable preference shares of 25p each and one Special Share of £1.

As at 31 December 2007, BAE Systems' issued share capital of £89,362,726 comprised 3,574,509,017 ordinary shares of 2.5p each and one Special Share of £1.

Rights and obligations of ordinary shares

On a show of hands at a general meeting every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. Subject to the relevant statutory provisions and the Company's Articles of Association, holders of ordinary shares are entitled to a dividend where declared or paid out of profits available for such purposes. Subject to the relevant statutory provisions and the Company's Articles of Association, on a return of capital on a winding-up, holders of ordinary shares are entitled, after repayment of the £1 Special Share, to participate in such a return.

Rights and obligations of cumulative redeemable preference shares

Following conversion of all the cumulative redeemable preference shares in issue into ordinary shares pursuant to the Company's Articles of Association, there were no cumulative redeemable preference shares in issue as at 31 December 2007. The Company has no intention of re-issuing such shares and the effect of a special resolution to be proposed at the 2008 AGM will be, amongst other things, to delete the provisions of the Articles of Association relating to such shares.

Rights and obligations of the Special Share

The Special Share is held on behalf of the Secretary of State for Trade and Industry (the 'Special Shareholder') (now the Secretary of State for Business, Enterprise and Regulatory Reform). Certain provisions of the Company's Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company, the requirement that the majority of the directors are British, the requirement that decisions of the directors at their meetings, in their committees or via resolution must be approved by a majority of British directors and the requirement that the chief executive and any executive chairman are British.

The holder of the Special Share is entitled to attend a general meeting, but the Special Share carries no right to vote or any other rights at any such meeting, other than to speak in relation to any business in respect of the Special Share. Subject to the relevant statutory provisions and the Company's Articles of Association, on a return of capital on a winding-up, the Special Share shall be entitled to repayment of the £1 capital paid up on the Special Share in priority to any repayment of capital to any other members.

The holder of the Special Share has the right to require the Company to redeem the Special Share at par or convert the Special Share into one ordinary share at any time.

Treasury shares

As at the date of this report 61,945,000 ordinary shares were held in treasury. The rights to such shares are restricted in accordance with the Companies Acts and, in particular, the voting rights attaching to these shares are automatically suspended.

Restrictions on transfer of securities

The restrictions on the transfer of shares in the Company are as follows:

- the Special Share may only be issued to, held by and transferred to the Special Shareholder or his successor or nominee;
- the directors shall not register any allotment or transfer of any shares to a foreign person, or foreign persons acting in concert,

who at the time have more than a 15% voting interest in the Company, or who would, following such allotment or transfer, have such an interest;

- the directors shall not register any person as a holder of any shares unless they have received: (i) a declaration stating that upon registration, the share(s) will not be held by foreign persons or that upon registration the share(s) will be held by a foreign person or persons; (ii) such evidence (if any) as the directors may require of the authority of the signatory of the declaration; and (iii) such evidence or information (if any) as to the matters referred to in the declaration as the directors consider appropriate;
- the directors may, in their absolute discretion, refuse to register any transfer of shares which are not fully paid up (but not so as to prevent dealings in listed shares from taking place);
- the directors may also refuse to register any instrument of transfer of shares unless the instrument of transfer is in respect of only one class of share and it is lodged at the place where the register of members is kept, accompanied by a relevant certificate or such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;
- the directors may refuse to register an allotment or transfer of shares in favour of more than four persons jointly;
- where a shareholder has failed to provide the Company with certain information relating to their interest in shares, the directors can, in certain circumstances, refuse to register a transfer of such shares;
- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws);
- restrictions may be imposed pursuant to the Listing Rules of the Financial Services Authority whereby certain of the Group's employees require the Company's approval to deal in shares; and
- awards of shares made under the Company's share incentive plan are subject to restrictions on the transfer of shares prior to vesting.

The Company is not aware of any arrangements between its shareholders that may result in restrictions on the transfer of shares and/or voting rights.

Significant direct and indirect holders of securities

As at 20 February 2008, the Company had been advised of the following significant direct and indirect interests in the issued ordinary share capital of the Company:

AXA S.A. and its group of companies	10.32%
Barclays PLC	3.98%
Capital Group Companies, Inc.	6.99%
Franklin Resources, Inc. and affiliates	4.92%
Legal and General Group Plc	4.07%

Exercise of rights of shares in employee share schemes

The Trustees of the employee trusts do not seek to exercise voting rights on shares held in the employee trusts other than on the direction of the underlying beneficiaries. No voting rights are exercised in relation to shares unallocated to individual beneficiaries.

Restrictions on voting deadlines

The notice of any general meeting shall specify the deadline for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be proposed at the general meeting. The number of proxy votes for, against or withheld in respect of each resolution are publicised on the Company's website after the meeting.

Appointment and replacement of directors

Subject to certain nationality requirements mentioned below, the Company may by ordinary resolution appoint any person to be a director.

The majority of directors holding office must be British. Otherwise the directors who are not British shall vacate office in such order that those who have been in office for the shortest period since their appointment shall vacate their office first, unless all of the directors otherwise agree among themselves. Any director who holds the office of either chairman (in an executive capacity) or chief executive shall also be British.

The Company must have six directors holding office at all times. If the number is reduced to below six, then such number of persons shall be appointed as directors as soon as is reasonably practicable to reinstate the number of directors to six. The Company may by ordinary resolution from time to time vary the minimum number of directors.

At each AGM of the Company, any director who was elected or last re-elected at or before the AGM held in the third calendar year before the then current calendar year must retire by rotation and such further directors must retire by rotation so that in total not less than one-third of the directors retire by rotation each year. A retiring director is eligible for re-election.

Amendment of the Company's Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. Where class rights are varied, such amendments must be approved by the members of each class of shares separately.

In addition, certain provisions of the Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company, the requirement that the majority of the directors are British, the requirement that decisions of the directors at their meetings, in their committees or via resolution must be approved by a majority of British directors and the requirement that the chief executive and any executive chairman are British.

At the 2008 AGM a special resolution will be put to shareholders proposing amendments to the existing Articles of Association primarily in order to accommodate the provisions of the new Companies Act 2006.

Powers of the directors

The directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and the Memorandum and Articles of Association.

At the 2007 AGM, the directors were given the power to buy back a maximum number of 320,008,915 ordinary shares at a minimum price of 2.5p each. The maximum price was an amount equal to 105% 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 ordinary shares are contracted to be purchased. This power will expire at the earlier of the conclusion of the 2008 AGM or 9 August 2008. A special resolution will be proposed at the 2008 AGM to renew the Company's authority to acquire its own shares.

As part of a share buyback programme which commenced in October 2006, the Company repurchased 33,270,000 of its ordinary shares (having a nominal value of £831,750) during 2007 for an aggregate consideration of approximately £147m. The shares repurchased represented 0.93% of the called-up share capital of the Company as at 31 December 2007. No further shares have been repurchased since the year end. The repurchased shares are held in treasury.

At the 2007 AGM, the directors were given the power to issue new shares up to an amount of £26,664,742. This power will expire on the earlier of the conclusion of the 2008 AGM or 8 August 2008.

Other statutory and regulatory information (continued)

Accordingly, a resolution will be proposed at the 2008 AGM to renew the Company's authority to issue further new shares.

Directors' indemnities

The Company has entered into deeds of indemnity with all its current directors and those persons who were directors for any part of 2007 which are qualifying indemnity provisions for the purpose of the Companies Act 2006. A similar indemnity has been provided to Sir Richard Evans, a former director who retired from the Board on 30 June 2004 but remained an employee of the Company in a part-time customer relationship role.

Change of control – significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination, alteration or other similar rights in the event of a change of control of the Company:

- The Group has entered into a £1.5bn Revolving Credit Facility dated 1 February 2005 (as amended) and a £500m Letter of Credit Facility dated 27 March 2006, which provide that, in the event of a change of control of the Company, the lenders are entitled to renegotiate terms, or if no agreement is reached on negotiated terms within a certain period, to call for the prepayment or cancellation of the facilities. The Revolving Credit Facility was undrawn as at 31 December 2007;
- The Company has entered into a Restated and Amended Shareholders Agreement with European Aeronautic Defence and Space Company EADS N.V. (EADS) and Finmeccanica S.p.A (Finmeccanica) relating to MBDA S.A.S. dated 18 December 2001 (as amended). In the event that control of the Company passes to certain specified third party acquirors, the agreement allows EADS and Finmeccanica to exercise an option to terminate certain executive management level nomination and voting rights and certain shareholder information rights of the Company in relation to the MBDA joint venture. Following the exercise of this option, the Company would have the right to require the other shareholders to purchase its interest in MBDA at fair market value. The Company and EADS have agreed that if Finmeccanica acquires a controlling interest in the Company, EADS will increase its shareholding in MBDA to 50% by purchasing the appropriate number of shares in MBDA at fair market value;
- The Company, BAE Systems North America Inc. (now BAE Systems, Inc.) and BAE Systems Holdings Inc. entered into a Special Security Agreement dated 29 November 2000 with the US Department of Defense regarding the management of BAE Systems, Inc. in order to comply with the US government's national security requirements. In the event of a change of control of the Company, the Agreement may be terminated or altered by the US Department of Defense.

In addition, the Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

Auditors

KPMG Audit Plc, the auditors for the Company, have indicated their willingness to continue in office and a resolution proposing their re-appointment will be put to the AGM.

Statement of directors' responsibilities in respect of the Annual Report and financial statements

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law

and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

Statement of disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

David Parkes

Company Secretary
20 February 2008