

## 6. Share Purchases

All purchases of Shares will be carried out through the agency of authorised stockbrokers appointed by us. Dealings will be carried out under the rules of the London Stock Exchange.

Purchases of Shares on your behalf may be aggregated with purchases of Shares on behalf of other participants in the Plan, which may result in a more or less favourable price than might have been obtained if your purchase had been made separately.

Purchases of Shares for all participants in the Plan may be made in separate transactions and, if need be, on different days. If it is necessary to purchase Shares in the Plan at different prices, an average price will be calculated for all purchases.

You will receive the maximum whole number of Shares which it is possible to purchase on your behalf using your cash dividends and any cash balance from previous dividend payments, less the charges described in this booklet.

Shares will be purchased as soon as practical on or after the dividend payment date.

The Shares bought for you under the Plan will be registered in your name and you will receive a share certificate unless either your Shares are held in the CREST system, in which case the Shares will be credited to your CREST account; or your shareholding is not registered in your name but held on your behalf (for example, through a company sponsored nominee) in which case you should refer to the terms and conditions of such a service to determine the arrangements for the issue of Shares.

A purchase statement showing full details of the purchase and, where applicable, a share certificate will be sent to you within 10 working days of the dividend payment date.

## 7. Cash balances in the Plan

Any cash balance remaining after the purchase of Shares on your behalf, less charges, or any cash dividend which is insufficient to buy one Share, will be treated as set out in the Special Information.

No interest will be paid to you on cash balances held on your behalf. All cash balances will be held in a bank account with Lloyds TSB Bank plc. Such cash will be held as banker and not as trustee and as a result will not be held in accordance with the client money rules contained in the FSA Rules.

On leaving the Plan or in the event that the Plan is terminated, any cash balance will be treated as set out in the Special Information.

## 8. Third party rights

This agreement is for the benefit of the contracting parties only and will not confer any benefit on, or be enforceable by, a third party.

## 9. Partial and full elections

You may only participate in the Plan for all the Shares you hold in an account. However, we may, at our discretion, allow you to invest the cash dividend on part of your shareholding if your Shares are held for more than one beneficial owner.

## 10. Partial sales and transfers

If you sell or transfer some of your Shares your instructions will continue to apply to your remaining Shares.

## 11. Charges

We will be entitled to the fees and charges shown in this booklet and we may periodically review the amount and structure of these charges. We will give you 30 days written notice before any variation to the fees and charges applicable to the Plan takes effect. Charges, taxes and other duties payable will be deducted from the transaction.

If the amount of money to be invested less these fees and charges is insufficient to purchase one Share, no costs will be charged to you and the cash dividend will be treated as set out in the Special Information.

Charges deducted will be applied to meet the stockbroker's charges as agreed between us and the stockbroker from time to time and the remainder will be used to defray charges payable by the Company to us in relation to the operation of the Plan as agreed between us and the Company from time to time.

## 12. Termination by you

You may leave the Plan at any time by giving us notice in writing.

We must receive your instruction to leave the Plan by the deadline set out in the Special Information if you do not wish the Plan to apply to the next dividend.

Unless you instruct us otherwise, any existing instruction to pay your cash dividend to a bank, building society or third party will remain in force.

If we receive notification of a shareholder's death, bankruptcy, liquidation or mental incapacity, participation in the Plan will cease for all dividends and including the next dividend where the notification is received before the deadline set out in the Special Information. However, if Shares are held jointly, the Plan will continue for the remaining joint shareholder(s).

## 13. Termination by us

We may suspend or terminate the Plan at any time. If this happens you will be notified in writing and you will receive the next cash dividend paid by the Company on, or as soon as practicable after, the dividend payment date.

## 14. Conflicts of interest

We may possibly carry out transactions with you or for you in which we or an associate deal as principal or dual agent or otherwise have a material interest or a relationship with another party which might involve a conflict with our duty to you or result in a payment being received by us or an associate. We will not be able to consult you about this but will try to ensure that the terms of any transaction are as favourable to you as those carried out with a third party at arm's length.

## 15. Governing Law and Jurisdiction

These terms and conditions are governed by English law and any proceedings between you and us relating to this agreement will be subject to the jurisdiction of the English Courts.

## 16. Classification

For regulatory purposes you will be classified as a private customer unless you are an authorised firm or an overseas financial services institution. However, if you would otherwise be a market counterparty or an intermediate customer, you may not necessarily have rights under the Financial Ombudsman Service or the Financial Services Compensation Scheme as a result of such classification.

## 17. Communications

You should address all notices and other documents for us to: Share Dividend Team, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA.

We shall not treat any communication as received by us, or as effective, until we have actually received it at that address.

You must give us instructions in writing. We may agree to accept instructions by facsimile transmissions, electronic means or orally. In that case, we may require you to confirm your instructions in writing before acting upon them.

We will send all statements, notices and other documents to you by post to the sole or first named joint holder and all documents despatched to you are sent at your own risk.

We reserve the right to charge for the reissue or amendment of any documents.

## 18. Data Protection Act 1998 (the Act)

In accordance with the Act you are entitled, on payment of a fee, to a copy of information we hold about you. You should let us know if you think any information we hold about you is inaccurate, so that we may correct it.

The information we hold about you is confidential and will only be disclosed outside Lloyds TSB Bank plc in the following circumstances:

- where the law permits or it is in the public interest;
- at the request of any public or regulatory authority;
- to investigate or prevent fraud;
- to our agents in connection with running services for you;
- at your request or with your consent; and
- to the Company.

Telephone calls may be monitored or recorded in order that we can check that we have carried out your instructions correctly and to help improve our quality of service.

## 19. Operation of the Plan and amendment to these Terms and Conditions

The operation of the Plan is subject always to our discretion. We may vary these terms and conditions from time to time and will give you at least 30 days written notice unless it is impracticable to do so.

## 20. Complaints and compensation

If you have any complaints about the service we provide under this agreement you may complain to us or to the Financial Ombudsman Service. Your first point of contact should be the following address: The Quality Team, Lloyds TSB Registrars, 54 Pershore Road South, Kings Norton, Birmingham B30 3EP

Complaints we cannot settle may be referred to the Financial Ombudsman Service where you are eligible. Full details of how you may complain are available in our brochure 'How to voice your concerns' which will be forwarded to you with our acknowledgement of your complaint. You may also write to us about compensation you may be entitled to under the Financial Services Compensation Scheme.

## 21. Liability

Nothing in this agreement shall exclude us from any liability caused by our fraud, wilful default or negligence or which is required by the FSA Rules, and to the extent that the FSA Rules require that we be liable for any matter, this agreement shall be read accordingly.

The amount of our liability for any claim you have against us will not exceed the value of your Shares in the Plan when the claim arises plus interest at 2% over our base rate from when the claim arises until we pay the amount of our liability.

We will not be responsible for acts or omissions of the Company.

We will not be liable for acting or failing to act in accordance with a Court Order of which we have not been notified (whatever jurisdiction may govern the Court Order).

We will not be responsible for forged or fraudulent instructions and will be entitled to assume that instructions purporting to be yours are genuine unless it should be obvious to anyone that they are not.

We will not be responsible for any losses, costs, damages or expenses sustained or incurred by you by reason of industrial action or any cause beyond our control, including (without limitation) any failure, interruption or delay in the performance of our obligations resulting from breakdown, failure or malfunction of any telecommunications or computer service or electronic payment system or CREST.

We will not be responsible for any indirect or consequential loss.

We may do or refrain from doing anything which is, in our reasonable opinion, necessary to comply with the law of any jurisdiction or any rules, regulations or requirement of any regulatory authority or other body which is binding upon us.

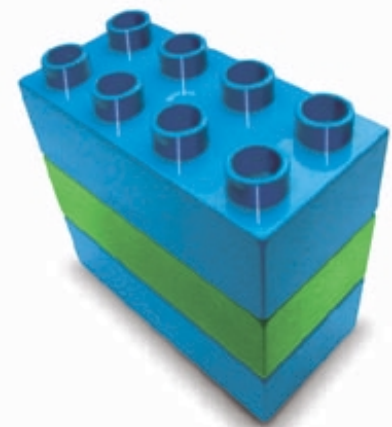
The *dividend reinvestment plan* is a convenient, *easy* and *cost effective* way to build your shareholding in BAE SYSTEMS plc by using your *cash dividends* to buy *additional shares*.



## Dividend *reinvestment* plan

### Main features

- your whole cash dividend is used to buy shares at favourable commission rates
- your shares will be bought as soon as possible on or after the dividend payment date
- you will be sent a statement within 10 working days of your shares being bought that shows full information including:
  - number of shares bought
  - price at which shares were bought
  - dealing costs deducted
  - any cash balance



## how much does it cost?

- 0.5% of the value of the shares purchased, no minimum
- Stamp Duty Reserve Tax currently at 0.5% of the value of the shares purchased
- Joining and leaving – no charge

## how do I *join* the plan?

### Simply complete and return the dividend reinvestment plan application form enclosed with this booklet.

Information provided in this booklet should not be taken as a recommendation by the Company or us to buy or hold shares in the Company. It is your decision whether to take part and if you have any doubts you should ask for advice from your independent financial adviser.

Remember that the value of shares can go down as well as up and you may not get back the full amount of your investment.

If you have any questions about the information in this booklet just call our helpline on 0870 241 3018 from inside the UK or +44 1903 854295 from overseas.



## special information

### Who may join?

*UK Shareholders* - you may join the Plan if you are resident in the UK.

*Overseas Shareholders* - please see paragraph 3 of the terms and conditions for full information on whether you may join the Plan.

You are responsible for checking that you can join.

It is a requirement of the Articles of Association of BAE SYSTEMS plc that no single Foreign Person may be interested in more than 15% of the company. If this individual shareholding limit is exceeded, the foreign-held shares which exceed this limit will have to be disposed of by the relevant shareholder. If such a disposal does not take place, BAE SYSTEMS plc has the right to order that the shares be sold and the net proceeds paid to the former owner. In order to participate in the Plan you must complete the nationality declaration contained in the Plan application form. If at any future date this declaration ceases to be correct you are required to inform Lloyds TSB Registrars immediately.

### What are the application / cancellation deadlines?

For the next dividend we must receive your postal application or cancellation request at least 15 working days before the dividend payment date, otherwise your instructions will be applicable only to subsequent dividends.

### What happens to cash balances?

Following a share purchase any remaining cash balance is carried forward and added to the next dividend. For further information please see paragraph 7 of the terms and conditions.

If you leave the Plan we will pay you any remaining cash balance as soon as reasonably practical.

### How does this affect my tax position?

You will be liable for tax on dividends reinvested on the same basis as if you had received the cash and arranged the purchase of shares yourself.

Please see paragraph 4 of the terms and conditions for further information on taxation.

## Terms and Conditions

### 1. Introduction

The dividend reinvestment plan ("the Plan") is provided by Lloyds TSB Bank plc, which is regulated by the FSA. When we have accepted your instruction to participate in the Plan, this booklet and these terms and conditions and your instruction will constitute an agreement between you and us under which we will:

- Collect dividends paid on your Shares in the Plan
- Purchase additional Shares on your behalf using your dividends
- Send you a statement following the share purchase showing full details of the purchase.

We will carry out your instructions to buy Shares but will have no duty to advise on the merits of the purchase.

### 2. Definitions

"Company" means BAE SYSTEMS plc  
"the Bank, we or us" means Lloyds TSB Bank plc regulated by the FSA, acting through its Lloyds TSB Registrars division.  
"You, your" means the investor or the corporate body who has signed the application form or, if more than one person, the joint holders jointly and severally. It also includes your personal representatives.  
"FSA" and "FSA Rules" mean, respectively, the Financial Services Authority and the rules made by the FSA, as amended from time to time.  
"Shares" means ordinary shares in the Company.  
"Special Information" means the special features applying to the Plan as set out in this booklet and included as part of the terms and conditions.

### 3. Eligibility

You may participate in the Plan provided that you are not a 'North American person' and do not fall within one of the categories set out below or any category set out in the Special Information. 'North American person' means any citizen or resident of the USA or Canada, including the estate of any such person; any corporation, partnership, or other entity created or organised in or under the laws of the USA or Canada or any political subdivision of these countries; or any estate or trust, the income of which is subject to US federal or Canadian income tax regardless of its source. References to the USA or Canada include their territories, possessions and all areas subject to their jurisdiction.

If you are a shareholder of overseas countries other than the USA or Canada you can take part in the Plan provided that you are not subject to regulations where your participation in the Plan would require us or the Company to comply with governmental or regulatory procedures or any similar formalities; you are responsible for ensuring that you may validly take part and for observing all relevant formalities; if in doubt, you should consult a professional adviser as to whether you require any governmental consents or need to observe any other formalities or are prohibited from receiving Shares instead of cash dividends.

The decision to take part in the Plan is your responsibility.

### 4. Taxation

Under current UK legislation and Inland Revenue practice, the taxation consequences for shareholders will be as outlined below. This summary of taxation treatment is not exhaustive, and, in particular, it only deals with the position of a shareholder resident in the UK.

#### Income Tax

Individual shareholders will be deemed to have paid income tax at the lower rate of 10%. This is known as the tax credit. If you pay income tax at either the lower or basic rates, you will have no further tax to pay on the dividend. If you pay income tax at the higher rate, you will have a further liability for tax. It is not possible to claim a repayment of the tax credit.

#### Capital Gains Tax

The cost of the shares, including the dealing charge and stamp duty reserve tax, will be the base cost of the shares bought on your behalf, for calculating the chargeable gain or allowable loss arising on sale.

You are reminded that taxation levels and bases can change. You are responsible, and we shall not be liable, for paying any taxes (including, without limitation, income tax and capital gains tax) which may be attributable to your participation in the Plan. We cannot give financial or tax advice and, if in doubt, you should consult an independent financial adviser.

### 5. Joining the Plan

Applications to join the Plan must be received by us by the deadline shown in the Special Information to be applicable for both that dividend and for subsequent dividends. Applications received after that will be applicable only for subsequent dividends. Normally, no acknowledgement of applications will be issued.

We reserve the right to refuse an application. If your application is incorrect or incomplete and we cannot obtain clarification we may return it without carrying out your instruction.

Once you have joined the Plan, all future dividends paid by the Company will be reinvested automatically in purchasing additional Shares on your behalf until you leave the Plan or until the Plan is terminated or suspended.