

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you have disposed of your holding of 7.75p (net) Cumulative Redeemable Preference Shares of 25p each, you should send this notification to the acquiror or the stockbroker or other agent who acted on your behalf on the disposal

26 June 2007

Dear Shareholder

**Notification of Conversion of all outstanding 7.75p (net)  
Cumulative Redeemable Preference Shares of 25p each ("Preference Shares")  
in BAE Systems plc ("the Company")**

The final conversion date for holders of Preference Shares to exercise their right to convert their Preference Shares into fully paid ordinary shares of 2.5p each in the Company ("Ordinary Shares") was 31 May 2007.

This letter now explains what will happen to Preference Shares outstanding after 31 May 2007, including those held by you.

**Treatment of outstanding Preference Shares**

As a result of 75% or more of the Preference Shares having now been converted, the Company has, as permitted by the Company's Articles of Association, elected to require the conversion of all the outstanding Preference Shares. The Company hereby gives you notice that you are required to convert your Preference Shares on 31 July 2007. Conversion of the outstanding Preference Shares will, in accordance with the Company's Articles of Association, take place as if you had chosen to convert on 31 May 2007, and therefore:

- Conversion will occur at the rate of 0.47904 fully paid Ordinary Shares for every outstanding Preference Share.
- If any fraction of an Ordinary Share arises on the conversion of Preference Shares, this will not be allotted to you, but all fractional entitlements will be aggregated and sold at the best price reasonably obtainable and the net proceeds will be distributed pro-rata among the persons entitled thereto, unless, in respect of any holding, the net proceeds would amount to less than £2 in which case the amount will not be distributed, but will be retained for the benefit of the Company.
- Outstanding Preference Shares will not have any entitlement to the half-yearly Preference Share dividend for the six months ending 30 June 2007 (which would otherwise have been payable on 2 July 2007), nor will any further dividend be payable on the Preference Shares.

Further information relating to conversion on 31 May 2007 can be found in the Final Reminder of Conversion Rights sent to you on 24 April 2007.

## **Procedure for Conversion**

The Company will apply to the UK Listing Authority and the London Stock Exchange for all of the Ordinary Shares arising on conversion to be admitted to the Official List and to trading on the London Stock Exchange. The Ordinary Shares issued as a result of conversion on 31 July 2007 will rank pari passu with the existing issued Ordinary Shares.

If your Preference Shares are held in certificated form, the Ordinary Shares arising on conversion will be issued to you in certificated form and there will be despatched by you, or where appropriate, to the person named in the form of nomination (see below), on or before 24 August 2007 by ordinary post at your risk:

- (i) a definitive certificate for the Ordinary Shares to which you will become entitled; and
- (ii) a cheque for the net proceeds of sale to which you are entitled in respect of any fraction of a share arising on conversion.

Upon conversion, your Preference Share certificate(s) will be treated as cancelled.

If your Preference Shares are held in uncertificated form (ie in CREST), please refer to the enclosed Appendix.

**No action is required from you unless you wish all or any of the Ordinary Shares to be issued on conversion to be registered in a name(s) other than your own (see below).**

After 31 July 2007 the Preference Shares will cease to exist, and will no longer be listed or tradable.

## **Form(s) of Nomination**

If you wish all or any of the Ordinary shares to be issued on conversion to be registered in a name(s) other than your own, you should make an application to the Company's Registrars at the address shown below for a form(s) of nomination and send this with your Preference Share Certificate to the Company's Registrars: Lloyds TSB Registrars, Repayments Team, The Causeway, Worthing, West Sussex BN99 6DA, United Kingdom (tel: 0870 240 7969 or +44 1903 276342 from outside the UK. The completed form(s) of nomination (which will include a Nationality Declaration) must be received by the Company's Registrars no later than 30 July 2007.

## **United Kingdom Taxation**

On the basis of current UK law and HM Revenue & Customs practice, if you are an individual or a corporate shareholder then subject to the following paragraph, you should not incur any liability for UK capital gains tax or corporation tax on capital gains by reason only of the conversion. A liability may, however, arise if you nominate some other person to receive, or you subsequently dispose of, some or all, of the Ordinary Shares arising on conversion.

If you are a corporate shareholder owning, together with persons connected with you, 10% or more of the Preference Shares, in certain circumstances you may be regarded as a creditor to a loan relationship. If that is the case, then you may, depending on your accounting treatment, be required to bifurcate the Preference Shares into a "host" loan relationship and an embedded derivative for tax purposes. In either case you should consult your professional adviser.

**Should you be in any doubt regarding your taxation position you should consult your professional adviser.**

### **Enquiries**

All enquiries in respect of this notification should be directed to the Company's Registrars: Lloyds TSB Registrars, Repayments Team, The Causeway, Worthing, West Sussex BN99 6DA (tel: 0870 240 7969 or +44 1903 276342 from outside the UK).

Yours sincerely

A handwritten signature in black ink, appearing to read 'D Parkes', written in a cursive style.

DAVID PARKES  
Company Secretary

## **Appendix for the Conversion of Preference Shares held in CREST**

This Appendix sets out the procedure for conversion for holders of Preference Shares held in uncertificated form, in CREST.

If you are a CREST sponsored member you should bring this notification and the Appendix to the attention of your CREST sponsor. CREST members may wish to refer to the CREST Manual for further information on the CREST procedures referred to in this Appendix.

In respect of the conversion due to take place on 31 July 2007, the Company's Registrars will, on 10 August 2007, instruct CRESTCo to credit your appropriate stock account (being a stock account under the participant ID and member account previously supplied by you to the Company's Registrars) with the Ordinary Shares issued to you or to which you are entitled.

### **No action is required from you.**

It is expected that the instruction will be given to CRESTCo as soon as practicable after listing has become effective in relation to the Ordinary Shares arising on conversion.

Notwithstanding the above, if the Company in its absolute discretion (and for any reason) so determines, all or any of the Ordinary Shares to which you are entitled on conversion may be, or may be issued to you in certificated form.

In addition, there will be despatched to you, on or before 24 August 2007 by ordinary post at your own risk, a cheque for the net proceeds of sale to which you are entitled in respect of any fraction of share arising on conversion.

You should note that it is not possible to nominate some other person as the allottee of all or any of the Ordinary Shares arising on conversion where the related Preference Shares are held in CREST.

### **Enquiries**

All enquiries in respect of this notification should be directed to the Company's Registrars: Lloyds TSB Registrars, Repayments Team, The Causeway, Worthing, West Sussex BN99 6DA (tel: 0870 240 7969 or +44 1903 276342 from outside the UK).