

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action to be taken please seek personal financial advice from your stockbroker, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000, immediately.

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

BAE SYSTEMS

24 April 2007

To the Holders of 7.75p net Cumulative Convertible Redeemable Preference Shares of 25p each in the Company ('Convertible Preference Shares')

Dear Shareholder

FINAL REMINDER OF CONVERSION RIGHTS

I am writing to remind you that 31 May 2007 will be the last date on which you can exercise your right, subject to and in accordance with the Articles of Association of the Company, to convert all or any of your Convertible Preference Shares into fully paid ordinary shares of 2.5p each in the Company ('Ordinary Shares'). If you exercise this right, conversion will occur at the rate of 0.47904 Ordinary Shares for every Convertible Preference Share, on 31 May 2007. There will be no change to the conversion rate between the date of this letter and 31 May 2007. If any fraction of an Ordinary Share arises on the conversion of Convertible 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.

This constitutes the final opportunity for you to exercise your conversion right.

If you do not exercise your conversion right by 31 May 2007, then in accordance with the Company's Articles of Association, the Company may either:

- (i) redeem all or part of the outstanding preference shares at any time during the period commencing on 1 July 2007 and ending on 1 January 2010 and will (subject to the relevant Companies Act) redeem any outstanding preference shares on 1 January 2010 (or so soon thereafter as the Company shall be able to comply with the provisions of the relevant Companies Act affecting the redemption of redeemable shares) in each case at 100p per share together with any arrears and accruals of dividends; or
- (ii) alternatively, if immediately after 31 May 2007 75 per cent. of the Convertible Preference Shares have been converted, elect to require all holders of the remaining Convertible Preference Shares to convert, as if such holders had elected to convert on 31 May 2007.

The middle market prices for both the Convertible Preference Shares and the Ordinary Shares on the first dealing days in each of the previous six months were as follows:

	Ordinary Shares	Convertible Preference Shares
	(pence)	(pence)
1 November 2006	416	199.75
1 December 2006	390.75	183
2 January 2007	431.5	201
1 February 2007	422.25	198.5
1 March 2007	431.25	203.5
2 April 2007	459	215.25

On 17 April 2007, the latest practicable date prior to the printing of this letter, the middle market prices for the Convertible Preference and the Ordinary Shares were:

Convertible Preference Shares	217.25p
Ordinary Shares	465p

Please bear in mind that 31 May 2007 is the final date on which you can exercise your conversion right. The following information may be helpful to you. For the purposes of illustration, the example given is of a holding of 1,000 Convertible Preference Shares. The comparison of capital values was taken at 17 April 2007, the latest practicable middle market quotations prior to the printing of this document.

Capital	£
Value of 1,000 Convertible Preference Shares at 217.25p per share*	2,172
Value of 479 Ordinary Shares at 465p per share	2,227

***Please note that from 1 July 2007 Convertible Preference Shares may be redeemed by the Company at 100p per share together with any arrears and accruals of dividends. Accordingly in the illustrative example above, on a redemption by the Company of 1,000 outstanding Convertible Preference Shares the shareholder would receive £1,000 (together with any arrears and accruals of dividends).**

Income	£
Total net annual income on 1,000 Convertible Preference Shares	77.50
Total net annual income on 479 Ordinary Shares**	54.13

**For the purposes of the example, the rate of dividend to be paid on the Ordinary Shares of the Company in respect of the year ended 31 December 2006 has been used. It should not be assumed that any particular rate of dividend will be paid in future years on the Ordinary Shares. The Ordinary Shares issued on conversion on 31 May 2007 will rank pari passu with the existing issued Ordinary Shares, but will not entitle holders to participate in the recommended final dividend for the year ended 31 December 2006.

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 exercising your conversion rights. 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.

Procedure for Conversion

The procedure to follow if you wish to exercise your conversion rights depends on whether, on 31 May 2007, your Convertible Preference Shares are (or will be) held by you in uncertificated form, i.e. in CREST, or not. For this purpose, whether or not your Convertible Preference Shares are held in CREST on 31 May 2007 will be determined by reference to the register of members as at the close of business on 31 May 2007. If you are in any doubt as to whether your Convertible Preference Shares are held in CREST, you should contact your stockbroker or other appropriate adviser. If your Convertible Preference Shares are not in CREST, the procedure for exercise is shown below. If they are in CREST you should refer to the enclosed Appendix.

Procedure for Conversion of Convertible Preference Shares held in Certificated Form

If you wish to convert all or part of your holding of Convertible Preference Shares on 31 May 2007, you should complete the Conversion Notice and Nationality Declaration to be found on the Share Certificate relating to the Convertible Preference Shares to be converted and forward this, so as to arrive no later than 31 May 2007, 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).

A Conversion Notice once given may not be withdrawn without the consent in writing of the Company. If your Convertible Preference Share Certificate(s) is/are damaged, defaced, lost, stolen or destroyed, it/they may be replaced on application to the Company's Registrars at the above address with such conditions as to evidence and indemnity as the Directors may require and, in the case of defacement, the surrender of the defaced Convertible Preference Share Certificate(s).

If you wish all or any of the Ordinary Shares to be issued on conversion to be registered in a name or names other than your own, you should make an application to the Company's Registrars at the address shown above for a form or forms of nomination and send this with your Convertible Preference Share Certificate(s) in accordance with the instructions given above.

If you exercise your conversion rights by 31 May 2007, the Ordinary Shares arising on conversion will be issued to you, in certificated form and there will be despatched to you, or where appropriate to the person named in the form of nomination, on or before 28 June 2007 by ordinary post at your risk:

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

Further Information

Application will be made to the UK Listing Authority and to 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. Certificates in respect of Ordinary Shares arising on conversion and for any balance of Convertible Preference Shares not converted will be issued within 28 days of the date of conversion. Pending the issue of such certificate(s), transfers will be certified against the register at the office of the Company's Registrars.

Convertible Preference Shares that are converted to Ordinary Shares on 31 May 2007 will not be eligible for the next dividend payable on those Convertible Preference Shares, due to be paid on 2 July 2007.

The purpose of this letter is solely to remind you of your final opportunity to exercise your right to convert your Convertible Preference Shares into Ordinary Shares. It is not intended in any way to convey a recommendation to shareholders to exercise any such right or to refrain from doing so. If you are in any doubt as to whether or not to exercise your conversion right, you should consult your stockbroker, solicitor, accountant or other professional adviser, authorised under the Financial Services and Markets Act 2000, immediately.

Yours sincerely,



David Parkes
Company Secretary

Appendix for the Conversion of Convertible Preference Shares held in CREST

This Appendix sets out the procedure which you must follow as a holder of Convertible Preference Shares held in uncertificated form, in CREST, should you decide to convert some or all of such Shares.

If you are a CREST sponsored member you should refer to your CREST sponsor, as only your CREST sponsor will be able to take the necessary actions specified below to exercise your conversion rights. CREST members, however, who wish to exercise their conversion rights should refer to the CREST Manual for further information on the CREST procedures referred to in the Reminder Notice and in this Appendix.

In order to exercise your conversion rights in whole or in part, an "Uncertificated Conversion Notice" (as defined below) must be received as specified below at any time during the final conversion period up to and including 31 May 2007.

Under the Company's Articles of Association, the Directors are entitled to prescribe the manner in which the Convertible Preference Shares are to be converted and the notice requesting conversion shall be referred to as an "Uncertificated Conversion Notice".

In relation to the final conversion period ending on 31 May 2007, the Directors have prescribed and determined as follows:

The prescribed form of Uncertificated Conversion Notice is an Unmatched Stock Event ("USE") instruction which, on its settlement, will have the effect of crediting a stock account of the Company's Registrars, under the participant ID and member account ID specified below, with the number of Convertible Preference Shares to be converted.

The USE instruction must be properly authenticated in accordance with CRESTCo's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of Convertible Preference Shares to be converted;
- (ii) the participant ID of the holder of the Convertible Preference Shares;
- (iii) the member account ID of the holder of the Convertible Preference Shares from which the Convertible Preference Shares are to be debited;
- (iv) the participant ID of the Company's Registrars. This is 2RA08;
- (v) the member account ID of the Company's Registrars. This is RA640001;
- (vi) the corporate action number. (Refer to CREST System);
- (vii) the corporate action ISIN. This is GB0001271690;
- (viii) the intended settlement date. This must be on or before 31 May 2007.

In order for an Uncertificated Conversion Notice to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 31 May 2007.

CREST members and (where applicable) their CREST sponsors should note that the last time at which a USE instruction may settle on 31 May 2007 is 3.00 p.m. (the CREST deadline for settlement).

CREST members and (where applicable) their CREST sponsors should note that CRESTCo does not make available special procedures, in CREST, for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE instruction and its settlement in connection with the conversion of Convertible Preference Shares held in CREST. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) such action as shall be necessary to ensure that a USE instruction settles as stated above by 3.00 p.m. on 31 May 2007. In this connection, CREST members and (where applicable) their CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

A CREST member who submits a valid Uncertificated Conversion Notice in accordance with the above procedures will thereby request that the Ordinary Shares, to which he will become entitled, be issued to him on the terms set out in this document and subject to the Memorandum and Articles of Association of the Company.

The Company may in its sole discretion:-

- (i) treat as valid (and binding on the CREST member concerned) an Uncertificated Conversion Notice which does not comply in all respects with the requirements as to validity set out or referred to above;

- (ii) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid Uncertificated Conversion Notice in substitution for or in addition to a USE instruction and subject to such further terms and conditions as the Company may determine;
- (iii) treat a properly authenticated dematerialised instruction (in this sub-paragraph the “first instruction”) as not constituting a valid Uncertificated Conversion Notice if, at the time at which the Company’s Registrars receive a properly authenticated dematerialised instruction giving details of the first instruction, either the Company or the Company’s Registrars have received actual notice from CRESTCo of any of the matters specified in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (SI No. 2001/3755) in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
- (iv) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where available) CREST sponsor, the CREST member or CREST sponsored member is unable validly to exercise his conversion rights by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by the Company’s Registrars in connection with CREST.

If you exercise your conversion rights by 31 May 2007, the Ordinary Shares arising on conversion will be, or will be issued to you, in uncertificated form. The Company’s Registrars will, on or prior to 14 June 2007, instruct CRESTCo to credit your appropriate stock account (being a stock account under the participant ID and member account ID specified in your Uncertificated Conversion Notice) with the Ordinary Shares issued to you or to which you are entitled. 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 28 June 2007 by ordinary post at your risk, a cheque for the net proceeds of sale to which you are entitled in respect of any fraction of a share arising on conversion.

You should note that, where conversion rights are exercised in respect of Convertible Preference Shares held in CREST, it is not possible to nominate some other person as the allottee of all or any of the Ordinary Shares to which you are entitled.

