

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. The following disclaimer applies to the Prospectus following this page (the “**Prospectus**”) and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF NOTES FOR SALE IN THE UNITED STATES OR ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE BONDS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”), AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES.

THE PROSPECTUS AND ITS CONTENTS ARE CONFIDENTIAL AND MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED, AND WILL NOT BE ABLE, TO PURCHASE ANY OF THE NOTES DESCRIBED THEREIN.

Confirmation of Your Representation: You have been sent the Prospectus on the basis that you have confirmed to Merrill Lynch International, The Royal Bank of Scotland plc, BNP Paribas and Lloyds TSB Bank plc (the “**Managers**”), being the senders of the attached, (i) that you and any customers that you represent are not resident in the United States, (ii) that the electronic mail (or e-mail) address to which the Prospectus has been delivered is not located in the United States of America, its territories and possessions, any State of the United States or the District of Columbia (where “possessions” include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) and (iii) that you consent to delivery of the Prospectus and any amendments or supplements thereto by electronic transmission.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriter or any affiliate of any of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Manager or such affiliate on behalf of BAE Systems plc in such jurisdiction. You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted *via* this medium may be altered or changed during the process of transmission and consequently none of the Managers and any person who controls them or any of their directors, officers, employees or agents, or any affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from any Manager.

Dated 6 June 2012

BAE SYSTEMS

BAE SYSTEMS PLC

(incorporated in England and Wales with limited liability)

£400,000,000

4.125 per cent. Bonds due

2022

Issue Price 99.568 per cent.

The £400,000,000 4.125 per cent. Bonds due 2022 (the “**Bonds**”) will be issued by BAE Systems plc (the “**Issuer**”). Interest on the Bonds is payable annually in arrear on 8 June in each year, commencing on 8 June 2013. Payments on the Bonds will be made without deduction for or on account of taxes of the United Kingdom to the extent described in “Terms and Conditions of the Bonds – Taxation”.

The Bonds mature on 8 June 2022. The Bonds are subject to redemption in whole, but not in part, at their principal amount, together with any applicable accrued interest, at the option of the Issuer at any time in the event of certain tax changes as described in Condition 5(b). See “Terms and Conditions of the Bonds – Redemption and Purchase”.

The Bonds will constitute direct, unconditional and (subject to Condition 3) unsecured obligations of the Issuer. See “Terms and Conditions of the Bonds – Status”.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) for the Bonds to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Bonds to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Market**”). References in this Prospectus to the Bonds being “listed” (and all related references) shall mean that the Bonds have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The Bonds will initially be represented by a temporary global bond (the “**Temporary Global Bond**”), without interest coupons, which will be deposited with a common depository on behalf of the Clearstream, Luxembourg and Euroclear systems on or about 8 June 2012. The Temporary Global Bond will be exchangeable for interests in a permanent global bond (the “**Permanent Global Bond**” and together with the Temporary Global Bond, the “**Global Bonds**”) and each a “**Global Bond**”), without interest coupons, on or after a date which is expected to be 18 July 2012, upon certification as to non-U.S. beneficial ownership. The Permanent Global Bond will be exchangeable for definitive Bonds in bearer form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof, up to and including £199,000 in the circumstances set out in it. No definitive Bonds will be issued with a denomination above £199,000. See “Summary of Provisions relating to the Bonds while in Global Form”.

As of the date of this Prospectus, the Bonds are expected to be rated Baa2 by Moody’s Investors Service, Inc. (“**Moody’s**”), BBB+ by Standard & Poor’s Credit Market Services Europe Limited (“**Standard & Poor’s**”) and BBB+ by Fitch Ratings Ltd. (“**Fitch**”). A rating is not a recommendation to buy, sell or hold Bonds and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Moody’s is not established in the EU but the rating it has given to the Bonds is endorsed by Moody’s Investors Service Ltd., which is established in the EU and registered under Regulation (EC) No 1060/2009 (as amended) (the “**CRA Regulation**”). Each of Standard & Poor’s and Fitch is established in the EU and is registered under the CRA Regulation.

Prospective investors should have regard to the factors described in “Risk Factors”.

BofA Merrill Lynch

The Royal Bank of Scotland

BNP PARIBAS

Lloyds Bank

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the “**Prospectus Directive**”) and for the purpose of giving information with regard to the Issuer, BAE Systems (as defined herein) and the Bonds which according to the particular nature of the Issuer, BAE Systems and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and BAE Systems. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all the documents which are incorporated herein by reference (see “Documents Incorporated by Reference”).

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers (as defined in “Subscription and Sale”) to subscribe or purchase, any of the Bonds. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Bonds and distribution of this Prospectus, see “Subscription and Sale”.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or BAE Systems since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or BAE Systems since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in this Prospectus or any other information supplied in connection with the Bonds is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Manager or on its behalf in connection with the Issuer and/or BAE Systems and/or the issue and offering of the Bonds. Each Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933 (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

In connection with the issue of the Bonds, The Royal Bank of Scotland plc (the “**Stabilising Manager**”) (or any person acting on behalf of the Stabilising Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

Unless otherwise specified or the context otherwise requires, as used or presented in this Prospectus:

- “**BAE Systems**” refers to the Issuer together with its subsidiaries;
- “**Euro**” refers to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended;
- “**pounds sterling**” or “**£**” refers to the currency of the United Kingdom;
- references to the number of employees of BAE Systems include share of equity accounted investments;
- “**Saudi Arabian riyal**” refers to the currency of the Kingdom of Saudi Arabia;
- “**Underlying EBITA**” refers to earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items. Management uses Underlying EBITA as an underlying profit measure to monitor the year-on-year profitability of BAE Systems and to evaluate the segment performance of the operating groups; and
- “**U.S.\$**” and “**U.S. dollar**” refers to the currency of the United States.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the audited consolidated financial statements of the Issuer for the financial years ended 31 December 2011 and 31 December 2010, respectively, together in each case with the audit report thereon, which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Services Authority or filed with it. Such documents shall be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Those parts of the documents incorporated by reference in this Prospectus which are not specifically incorporated by reference in this Prospectus are either not relevant for prospective investors in the Bonds or the relevant information is included elsewhere in this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the registered office of the Issuer.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Bonds are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the Issuer may be unable to pay principal, interest or other amounts on or in connection with the Bonds for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Bonds

Risks relating to the Industry and Business

BAE Systems is dependent on defence spending and reductions in such spending could adversely affect BAE Systems

BAE Systems' core businesses are primarily defence-related, selling products and services directly and indirectly, mainly to the United States ("US"), United Kingdom ("UK"), Saudi Arabian, and other national governments. Defence spending depends on a complex mix of political considerations, budgetary constraints and the ability of the armed forces to meet specific threats and perform certain missions, and, as such, may be subject to significant fluctuations from year to year.

With constraints on government expenditure in a number of BAE Systems' markets and countries in the Eurozone area currently experiencing serious financial difficulties, affordability continues to be a key focus for customers.

A decrease in defence spending by BAE Systems' major customers could have a material adverse effect on BAE Systems' future results and financial condition.

Certain parts of BAE Systems' business are dependent on a small number of large contracts

A significant proportion of BAE Systems' revenue comes from a small number of large contracts. Each of these contracts, which are primarily in the Platforms & Services (UK) and Platforms & Services (International) reporting segments, is typically worth or potentially worth over £1 billion. The loss, expiration, suspension, cancellation or termination of any one of these large contracts, for any reason, could have a material adverse effect on BAE Systems' future results and financial condition.

BAE Systems' largest customers are governments

Companies engaged in the supply of defence and security related equipment and services to government agencies are subject to certain business risks particular to the defence and security industries. These governments could modify contracts or terminate them at short notice and at their convenience. For example, long-term US government contracts are normally funded annually and are subject to cancellation or delay if funding appropriations for subsequent performance periods are not made. Terms and risk sharing agreements can also be amended. In addition, BAE Systems, as a government contractor, is subject to financial audits and other reviews by some of its governmental customers with respect to the performance of, and the accounting and general practices relating to, government contracts. As a result of these audits and reviews, costs and prices under these contracts may be subject to adjustment.

The termination of one or more of the contracts for BAE Systems' programmes by governments; the failure of the relevant agencies to obtain expected funding appropriations for BAE Systems' programmes; or a deterioration in BAE Systems' relationship with any of its key government customers and corresponding reduction in contract awards, could have a material adverse effect on BAE Systems' future results and financial condition.

The timing of award of defence contracts could materially affect BAE Systems' future results of operations and financial condition

BAE Systems' profits and cash flows are dependent, to a significant extent, on the timing of award of defence contracts. Amounts receivable under BAE Systems' defence contracts can be substantial and, therefore, the timing of awards, or failure to receive anticipated awards, could materially affect BAE Systems' profits and cash flows for the periods affected.

In 2011, BAE Systems' financial performance was impacted by a delay in the award of a contract from the Kingdom of Saudi Arabia relating to price escalation on the Salam Typhoon programme. Negotiations on the contract continue in 2012. See "Description of the Issuer – Recent Developments".

BAE Systems has fixed-price contracts

A significant portion of BAE Systems' revenue is derived from fixed-price contracts. An inherent risk in these fixed-price contracts is that actual performance costs may exceed the projected costs on which the fixed prices for such contracts are agreed. These contracts can extend over many years and it can be difficult to predict the ultimate outturn costs associated with the terms on which they are based. BAE Systems' failure to anticipate technical problems, estimate costs accurately or control costs during performance of a fixed-price contract may reduce the profitability of such a contract or result in a loss.

BAE Systems is exposed to risks inherent in operating in a global market

BAE Systems is a global company which conducts business in a number of regions, including the Middle East, and, as a result, assumes certain risks associated with businesses with a broad geographical reach. In some countries, these risks include, and are not limited to, the following:

- political changes could lead to changes in the business environment in which BAE Systems operates;
- economic downturns, political instability and civil disturbances could disrupt BAE Systems' business activities;
- government regulations and administrative policies could change quickly and restraints on the movement of capital could be imposed;
- governments could expropriate BAE Systems' assets; and
- burdensome taxes or tariffs could be introduced.

The occurrence of any such events could have a material adverse effect on BAE Systems' future results and financial condition.

BAE Systems is subject to export controls and other restrictions

A portion of BAE Systems' sales is derived from the export of its products. The export of defence and security products outside the jurisdictions in which they are produced is subject to licensing and export controls, and other restrictions. No assurance can be given that the export controls to which BAE Systems is subject will not become more restrictive, that new generations of BAE Systems' products will not also be subject to similar or more stringent controls, or that political factors or changing international circumstances will not result in BAE Systems being unable to obtain necessary export licences. Reduced access to export markets could have a material adverse effect on BAE Systems' future results and financial condition. Failure

to comply with export controls and wider regulations could expose BAE Systems to fines, penalties, suspension or debarment, which could have a material adverse effect on BAE Systems.

BAE Systems is involved in consortia, joint ventures and equity holdings where it does not have control

BAE Systems participates in various consortia, joint ventures and equity holdings, exercising varying degrees of control. The risk of failure or the risk of disagreement, particularly in those that require the unanimous consent of all members with regard to major decisions, is inherent in any jointly controlled entity. In the event of failure or disagreement within a consortium, joint venture or equity holding and the business arrangement failing to meet its strategic objectives or expected benefits, BAE Systems' business and future results may be adversely affected.

BAE Systems' business is subject to significant competition

BAE Systems' businesses are subject to competition from national and multi-national firms with substantial resources and capital, and many contracts are obtained through a competitive bidding process. BAE Systems' ability to compete for contracts depends to a large extent on the strength of its intellectual property rights and technical know-how, together with the effectiveness and innovation of its research and development programmes, its ability to offer better programme performance than its competitors at a lower cost to its customers, and the readiness of its facilities, equipment and personnel to undertake the programmes for which it competes.

In some instances, governments direct to a single supplier all work for a particular programme, commonly known as sole-source programmes. Although governments have historically awarded certain programmes to BAE Systems on a sole-source basis, they may in the future determine to open such programmes to a competitive bidding process. Government contracts for defence-related products can, in certain countries, be awarded on the basis of home country preference.

In the event that BAE Systems is unable adequately to compete in the markets in which it operates, BAE Systems' business and future results may be adversely impacted.

BAE Systems has an aggregate funding deficit in its defined benefit pension schemes

BAE Systems operates certain defined benefit pension schemes. At present, in aggregate, there is an actuarial deficit between the value of the projected liabilities of these schemes and the assets they hold. The amount of the deficits may be adversely affected by changes in a number of factors, including investment returns, long-term interest rate and price inflation expectations, and anticipated members' longevity. Further increases in pension scheme deficits may require BAE Systems to increase the amount of cash contributions payable to these schemes, thereby reducing cash available to meet BAE Systems' other operating, investing and financing requirements.

The anticipated benefits of acquisitions may not be realised

BAE Systems has experienced growth through acquisitions and continues to pursue acquisitions in order to meet its strategic objectives. Whether BAE Systems realises the anticipated benefits from these transactions depends upon the successful integration of the acquired businesses, as well as their performance. The diversion of management attention to integration efforts and the performance of the acquired businesses below expectations could adversely affect BAE Systems' business, and create the risk of impairments arising on goodwill and other intangible assets.

BAE Systems is subject to risk from a failure to comply with laws and regulations

BAE Systems has contracts and operations in many parts of the world, operates in a highly regulated environment, and is subject to applicable laws and regulations of many jurisdictions. These include, without limitation, regulations relating to import-export controls, money-laundering, false accounting, anti-bribery

and anti-boycott provisions. Non-compliance could expose BAE Systems to fines, penalties, suspension or debarment, which could have a material adverse effect on BAE Systems. From time to time, BAE Systems is subject to government investigations relating to its operations. Failure by BAE Systems or its sales representatives, marketing advisers or others acting on its behalf to comply with these laws and regulations could result in administrative, civil or criminal liabilities resulting in significant fines and penalties, and/or result in the suspension or debarment of BAE Systems from government contracts for some period of time or suspension of BAE Systems' export privileges.

BAE Systems is exposed to volatility in currency exchange rates

The global nature of BAE Systems' business means it is exposed to volatility in currency exchange rates in respect of foreign currency denominated transactions, and the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. BAE Systems is exposed to a number of foreign currencies, the most significant being the U.S. dollar, Euro and Saudi Arabian riyal. Significant fluctuations in exchange rates to which BAE Systems is exposed could have a material adverse effect on BAE Systems' future results and financial condition.

BAE Systems could be negatively impacted by information technology security threats

As a defence, aerospace and security company, the security threats faced by BAE Systems include threats to its information technology infrastructure, unlawful attempts to gain access to its proprietary or classified information and the potential for business disruptions associated with information technology failures. Failure to combat these risks effectively could negatively impact BAE Systems' reputation among its customers and the public, cause disruption to its business operations, and could result in a negative impact on BAE Systems' future results and financial condition.

BAE Systems is dependent upon component availability, subcontractor performance and key suppliers

BAE Systems is dependent upon the delivery of materials by suppliers, and the assembly of components and subsystems by subcontractors used in its products in a timely and satisfactory manner, and in full compliance with applicable terms and conditions. Some of BAE Systems' suppliers or subcontractors may be impacted by the economic environment and constraints on available financing, which could impair their ability to meet their obligations to BAE Systems. In addition, some products require relatively scarce raw materials. BAE Systems is generally subject to specific procurement requirements which may, in effect, limit the suppliers and subcontractors it may utilise. In some instances, BAE Systems is dependent on one or a limited number of suppliers. If any of these suppliers or subcontractors fails to meet BAE Systems' needs, BAE Systems may not, in the short term, have readily available alternatives, thereby impacting its ability to complete its customer obligations satisfactorily and in a timely manner, which could have a negative impact on BAE Systems' future results and financial condition.

The Issuer is a holding company with no revenue-generating operations of its own

The Issuer is a holding company and does not directly conduct any business operations. The business of the BAE Systems is carried out through several operating subsidiaries and joint ventures. Therefore, Bondholders will not have any direct claim on any of the income generated from the BAE Systems' business operations.

Because the Issuer does not have significant business operations of its own, the Issuer will depend upon operating subsidiaries to provide the funds necessary to pay the principal, interest or other amounts on or in connection with, the Bonds. These operating subsidiaries have not guaranteed the Bonds and have no obligation, contingent or otherwise, to pay amounts due under the Bonds or to make funds available for these payments, whether in the form of loans, dividends or otherwise. Payments from the operating subsidiaries to the Issuer might not be able to be made in some circumstances, due to corporate law or contractual or other legal restrictions.

Bondholders will have a direct claim based on the Bonds against the Issuer, but will not have a direct claim based on the Bonds against any operating subsidiaries. The right of Bondholders to receive payments under the Bonds will be structurally subordinated to all liabilities of the operating subsidiaries. In the event of a bankruptcy, liquidation, reorganisation or similar proceeding relating to a subsidiary, the right of Bondholders to participate in a distribution of the assets of such subsidiary will rank behind such subsidiary's creditors (including trade creditors) and preferred shareholders (if any), except to the extent that the Issuer has direct claims against such subsidiary.

Factors which are material for the purpose of assessing the market risks associated with the Bonds

Risks related to the Bonds generally

Denominations involve integral multiples

The denominations of the Bonds are £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. Therefore, it is possible that the Bonds may be traded in amounts in excess of £100,000 that are not integral multiples of £100,000. In such a case, a Bondholder who, as a result of trading such amounts, holds a principal amount of less than £100,000 will not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more denominations.

If definitive Bonds are issued, holders should be aware that definitive Bonds which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

Modification, waivers and substitution

The terms and conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The terms and conditions of the Bonds also provide that the Trustee may, subject to certain restrictions, without the consent of Bondholders or Couponholders, agree to (a) any modification, or to the waiver or authorisation of any breach or proposed breach, of any of the provisions of the Bonds or the Trust Deed or the Agency Agreement or (b) determine without the consent of the Bondholders that any Event of Default or Potential Event of Default shall not be treated as such or (c) the substitution in place of the Issuer as principal debtor under the Bonds, in the circumstances described in Condition 11(c) and the Trust Deed.

EU Directive on the taxation of savings income

EC Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”) requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual or certain other persons in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be

obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

Change of law

The terms and conditions of the Bonds are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Bonds.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in pounds sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the “**Investor's Currency**”) other than pounds sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of pounds sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to pounds sterling would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency equivalent value of the principal payable on the Bonds and (3) the Investor's Currency equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Credit ratings may not reflect all risks

The Bonds are expected to be assigned on issue a rating of Baa2 by Moody's, BBB+ by Standard & Poor's and BBB+ by Fitch. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

TERMS AND CONDITIONS OF THE BONDS

The following are the terms and conditions substantially in the form in which they will be endorsed on the Bonds:

The issue of the £400,000,000 4.125 per cent. Bonds due 2022 (the “**Bonds**”) was authorised by a resolution of the Banking Committee of BAE Systems plc (the “**Issuer**”) passed on 28 May 2012 pursuant to the terms of reference of the Banking Committee approved by the Board of Directors of the Issuer on 10 September 1997. The Bonds are constituted by a Trust Deed (the “**Trust Deed**”) dated 8 June 2012 between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**” which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the “**Bondholders**”). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds and the coupons relating to them (the “**Coupons**”). Copies of the Trust Deed and of the Paying Agency Agreement (the “**Paying Agency Agreement**”) dated 8 June 2012 relating to the Bonds between the Issuer, the Trustee and the initial principal paying agent and the other paying agents named in it are available for inspection during usual business hours at the principal office of the Trustee (presently at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB) and at the specified offices of the principal paying agent for the time being (the “**Principal Paying Agent**”) and the other paying agents for the time being (the “**Paying Agents**”, which expression shall include the Principal Paying Agent). The Bondholders and the holders of the Coupons (whether or not attached to the relevant Bonds) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Paying Agency Agreement.

1 Form, Denomination and Title

(a) Form and denomination

The Bonds are serially numbered and in bearer form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with Coupons attached on issue. No definitive Bonds will be issued with a denomination above £199,000. Bonds of one denomination may not be exchanged for Bonds of any other denomination.

(b) Title

Title to the Bonds and the Coupons passes by delivery. The holder of any Bond or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2 Status

The Bonds and Coupons constitute direct, unconditional and (subject to Condition 3) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds and the Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

3 Negative Pledge

So long as any Bond or Coupon remains outstanding (as defined in the Trust Deed), the Issuer will not, and will not permit any member of the BAE Group to, create or permit to exist any Lien upon any of its or their present or future assets or revenues to secure (i) any of its present or future Relevant Borrowings or (ii) any

guarantee or indemnity in respect of any present or future Relevant Borrowings of any other Person, without at the same time or prior thereto according to the payment obligations of the Issuer pursuant to the Trust Deed, the Bonds and the Coupons the same security as is created or subsisting to secure any such Relevant Borrowings, guarantee or indemnity as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

In these Conditions:

“**BAE Group**” means the Issuer and its Subsidiaries;

“**BAE Group Total Assets**” means, at any time, the aggregate book value of the fixed and current assets and investments of the BAE Group as determined by reference to the Latest Consolidated Balance Sheet;

“**Latest Consolidated Balance Sheet**” means the latest published annual consolidated balance sheet of the Issuer which has been audited and reported on by the Issuer’s independent accountants in the full financial statements of the BAE Group;

“**Lien**” means any lien, mortgage, charge, encumbrance or other security interest, provided that Liens shall not include: (i) in the case of a Subsidiary, any liens, mortgages, charges, encumbrances or other security interests in existence at the date it became a Subsidiary and which was not created in anticipation of such acquisition, and (ii) any security interests not falling within (i) above securing an amount in the aggregate not exceeding 3.5 per cent. of the BAE Group Total Assets;

“**Person**” means an individual, partnership, corporation, undertaking, joint venture, trust or unincorporated organisation, and a government or agency or political subdivision thereof;

“**Relevant Borrowings**” means any indebtedness for borrowed money of any member of the BAE Group in the form of, or represented by, bonds, notes, debentures or other securities which are or are to be quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market (whether or not initially distributed by way of private placement), but excluding any such indebtedness which upon the issuance thereof had a stated maturity not exceeding one year; and

“**Subsidiary**” means a subsidiary corporation or other Person which is required to be fully consolidated in the consolidated financial statements of the Issuer in accordance with the accounting principles under which the Issuer is required to produce its financial statements from time to time.

4 Interest

The Bonds bear interest from and including 8 June 2012 at the rate of 4.125 per cent. per annum, payable annually in arrear on 8 June in each year (each an “**Interest Payment Date**”). Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions.

Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period (as defined below), the day-count fraction used will be the number of days in the relevant period from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

In these Conditions, the period beginning on and including 8 June 2012 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “**Interest Period**”.

Interest in respect of any Bond shall be calculated per £1,000 in principal amount of the Bonds (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall be equal to the product of 4.125 per cent., the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest penny (half a penny being rounded upwards).

5 Redemption and Purchase

(a) Final redemption

Unless previously purchased and cancelled, the Bonds will be redeemed at their principal amount on 8 June 2022. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition.

(b) Redemption for taxation reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to but excluding the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 6 June 2012, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer shall deliver to the Trustee a certificate signed by a duly authorised officer of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Bondholders and the Couponholders.

(c) Notice of redemption

All Bonds in respect of which any notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

(d) Purchase

Each of the Issuer and its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price (provided that they are purchased together with all unmatured Coupons relating to them). The Bonds so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quora at meetings of the Bondholders or for the purposes of Condition 11(a).

(e) **Cancellation**

All Bonds so redeemed or purchased and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be re-issued or resold.

6 Payments

(a) **Method of Payment**

Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Bonds or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London. Payments of interest due in respect of any Bond other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Bond.

(b) **Payments subject to applicable laws**

All payments are subject in all cases to any applicable laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

(c) **Surrender of unmatured Coupons**

Each Bond should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date (as defined in Condition 7) for the relevant payment of principal.

(d) **Payments on business days**

A Bond or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a sterling account, in London). No further interest or other payment will be made as a consequence of the day on which the relevant Bond or Coupon may be presented for payment under this Condition 6 falling after the due date. In this Condition, “**business day**” means a day on which commercial banks and foreign exchange markets are open in the relevant city.

(e) **Paying Agents**

The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will maintain (i) a Principal Paying Agent, (ii) Paying Agents having specified offices in at least two major European cities approved by the Trustee and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to such Directive. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Bondholders.

7 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds and the Coupons shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other governmental charges of whatsoever nature (“**Taxes**”) imposed, levied, collected, withheld or assessed by the United Kingdom or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon.

(a) **Other connection**

Presented for payment by or on behalf of a holder who is liable to such Taxes in respect of such Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon.

(b) **Presentation more than 30 days after the Relevant Date**

Presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Bond or Coupon for payment on the last day of such period of 30 days.

(c) **Payment to individuals**

Where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC, or any other European Union Directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to such Directive, or any agreement between the European Community and any jurisdiction providing for equivalent measures.

(d) **Payment by another Paying Agent**

Presented for payment by or on behalf of a Bondholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union.

(e) **Certification or Exemption from Tax**

Where such withholding or deduction is imposed on a payment to a holder who would not be subject to such withholding or deduction if such holder provided information concerning the nationality, residence, identity or place of incorporation of the holder, presented any form of certificate or made a declaration of non-residence or other similar claim for exemption to the relevant tax authority.

“**Relevant Date**” means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. Any reference in these Conditions to “principal” and/or “interest” shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

8 Events of Default

If any of the following events occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of not less than 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction, give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest.

(a) **Non-Payment**

The Issuer fails to pay any interest on any of the Bonds when due and such failure continues for a period of 15 days.

(b) **Breach of Other Obligations**

The Issuer does not perform or comply with any one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 60 days after written notice of such default shall have been given to the Issuer by the Trustee.

(c) **Cross Acceleration**

(A) The repayment of any Borrowed Money of the Issuer or any Material Subsidiary is accelerated by reason of default and is not then paid within any period of grace applicable thereto (or, if no grace period is specified and the default arises solely due to technical or administrative problems in making payments, within three Business Days, or otherwise, within five Business Days), or the principal amount of any Borrowed Money of the Issuer or any Material Subsidiary is not repaid on the due date therefor, or any guarantee in respect of the principal amount of any Borrowed Money is not honoured, in each case within any period of grace applicable thereto (or, if no grace period is specified and the default arises solely due to technical or administrative problems in making payments, within three Business Days, or otherwise, within five Business Days) and (B) the aggregate principal amount of the relevant Borrowed Money and/or guarantee(s) in respect of which one or more of the events mentioned in this Condition 8(c) have occurred is at least equal to the greater of (x) £25,000,000 (or the equivalent thereof in other currencies) or (y) 0.5 per cent. of the BAE Group Total Assets.

(d) **Insolvency proceedings**

A resolution is passed at a meeting of the Issuer for (or to petition for) its winding up or administration or the Issuer presents any petition for its winding up or administration or an order for the winding up or administration of the Issuer is made and such order continues undischarged and unstayed for a period of 60 days, unless in each case it is a voluntary solvent winding up, amalgamation, reconstruction or reorganisation or part of a solvent scheme of arrangement on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders.

(e) **Suspension of payments etc.**

The Issuer is unable to pay its debts generally as they fall due or agrees to any kind of composition, rescheduling, scheme, compromise or arrangement involving its creditors generally (or any class of them) as a result of financial difficulties.

(f) **Cessation of Business**

The Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by an amalgamation, reconstruction, reorganisation or a solvent

scheme of arrangement on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders.

(g) **Equivalent events**

There occurs, in relation to the Issuer, in any country or territory in which it carries on business or to the jurisdiction of whose courts it or any of its assets are subject, any event which corresponds in that country or territory with any of those mentioned in paragraphs (d) or (e) above (subject to the same grace periods and exceptions),

provided that in the case of any event as is specified in any of paragraphs (b), (c), (d) (other than in the case of the passing of a resolution or an order being made for the winding up (other than a voluntary solvent winding up) or administration of the Issuer), (e), (f) and (g) (inclusive) above the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Bondholders.

In this Condition:

“**Borrowed Money**” means (a) money borrowed and premiums and accrued interest which has become due and payable in respect thereof, (b) liabilities under or in respect of any acceptance or acceptance credit and (c) the principal and premium (if any) (and accrued interest which has become due and payable) for the time being outstanding on any notes, bonds or similar instruments, loan stock or other securities whether issued in whole or in part for cash or other consideration, together with guarantees of any of the aforesaid;

“**Business Day**” means a day which is not, in London or New York City, a Saturday, Sunday, a legal holiday or a day on which banking institutions are authorised or obligated by law to close; and

“**Material Subsidiary**” means any Subsidiary which either by itself or together with its Subsidiaries accounts for more than 10 per cent. of the BAE Group Total Assets.

9 Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 6 within a period of 10 years in the case of principal and 5 years in the case of interest from the appropriate Relevant Date.

10 Replacement of Bonds and Coupons

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

11 Meetings of Bondholders, Modification, Waiver and Substitution

(a) **Meetings of Bondholders**

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provision of the Trust Deed or the Agency Agreement. Such a meeting may be convened by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the

business of such meeting includes consideration of any matter defined in the Trust Deed as a Basic Terms Modification, including, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest, on, the Bonds, (iii) to change the currency of payment of the Bonds or the Coupons, (iv) to change the governing law of the Bonds, or (v) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be one or more persons holding or representing not less than three-quarters, or at any adjourned meeting not less than one-quarter, in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at any meeting at which such resolution was passed and whether or not they voted on the Extraordinary Resolution) and on all Couponholders.

The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-quarters of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-quarters in principal amount of the Bonds for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than three-quarters in principal amount of the Bonds for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Bondholders.

(b) **Modification and Waiver**

The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification, or to the waiver or authorisation of any breach or proposed breach, of any of the provisions of the Bonds or the Trust Deed or the Agency Agreement, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven. Any such modification shall be binding on the Bondholders and the Couponholders and any such modification shall be notified to the Bondholders in accordance with Condition 15 as soon as practicable thereafter.

(c) **Substitution**

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders or the Couponholders, to the substitution of the Issuer's successor in business or any subsidiary of the Issuer or its successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Bonds, provided that in the case of a substitution other than of the Issuer's successor in business, the Issuer or its successor in business gives an unconditional and irrevocable guarantee of the substitute entity's obligations under the Trust Deed and the Bonds. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders or Couponholders, to a change of the law governing the Bonds, the Coupons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.

(d) **Entitlement of the Trustee**

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee

shall have regard to the general interests of the Bondholders as a class with respect to their rights under the Trust Deed (but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

12 Enforcement

The Trustee may, at its discretion and without further notice, institute such proceedings and/or take other steps or action against or in relation to the Issuer as it may think fit to enforce the terms of the Trust Deed, the Bonds and the Coupons, but it need not take any such proceedings, steps or other action unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder or Couponholder may take any proceedings, steps or other action directly against the Issuer unless the Trustee, having become bound so to take any such proceedings, steps or other action, fails to do so within a reasonable time and such failure is continuing.

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

13 Indemnification and Protection of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including (i) provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer or any of its Subsidiaries without accounting for any profit. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled to (i) evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) require that any indemnity or security given to it by the Bondholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

The Trustee may rely without liability to Bondholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such

report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders.

14 Further Issues

The Issuer may from time to time without the consent of the Bondholders or Couponholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

15 Notices

Notices to Bondholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

The Trust Deed, the Bonds and the Coupons, and any non-contractual obligations arising out of or in connection with them, are governed by and shall be construed in accordance with English law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Temporary Global Bond and the Permanent Global Bond contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the terms and conditions of the Bonds set out in this document. The following is a summary of certain of those provisions:

1 Exchange

The Temporary Global Bond is exchangeable in whole or in part for interests in the Permanent Global Bond on or after a date which is expected to be 18 July 2012, upon certification as to non-U.S. beneficial ownership in the form required by Euroclear or Clearstream, Luxembourg. The Permanent Global Bond is exchangeable in whole but not in part (free of charge to the holder) for the definitive Bonds described below only if:

- (a) an event of default (as set out in Condition 8) has occurred and is continuing; or
- (b) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or
- (c) the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Bonds in definitive form.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Bond (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of (c)) the Issuer may give notice to the Trustee and the Bondholders, of its intention to exchange the Permanent Global Bond for definitive Bonds on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Bond may or, in the case of (c) above, shall surrender the Permanent Global Bond to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Bond the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Bond, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Bonds.

“**Exchange Date**” means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the cities in which the relevant clearing system is located.

2 Payments

On and after 18 July 2012, no payment will be made on the Temporary Global Bond unless exchange for an interest in the Permanent Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by a Global Bond will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of such Global Bond to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Bond, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Bonds. Condition 6(e)(iii) and Condition 7(d) will apply to the definitive Bonds only. For the purpose of

any payments made in respect of a Global Bond, Condition 6(d) shall not apply, and all such payments shall be made on a day on which commercial banks and foreign exchange markets are open in the financial centre of the currency of the Bonds.

3 Notices

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders (as defined below) rather than by publication as required by Condition 15, provided that, so long as the Bonds are admitted to the Official List and admitted to trading on the Market, all requirements of the UK Listing Authority have been complied with. Any such notice shall be deemed to have been given to the Bondholders on the day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

4 Accountholders

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal and interest on such principal amount of such Bonds, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Bond in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Bond.

5 Prescription

Claims against the Issuer in respect of principal and interest on the Bonds while the Bonds are represented by a Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).

6 Purchase and Cancellation

Cancellation of any Bond required by the Conditions to be cancelled following its purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Bond on the relevant part of the schedule thereto.

7 Euroclear and Clearstream, Luxembourg

References in the Global Bonds and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

DESCRIPTION OF THE ISSUER

Introduction and History

The Issuer was incorporated on 31 December 1979 and is the parent holding company of the BAE Systems group of companies. In November 1999, the Issuer (then known as British Aerospace Public Limited Company) merged with the Marconi Electronic Systems (“MES”) business of The General Electric Company, p.l.c., and the resulting entity was renamed BAE Systems plc. The Issuer is a public limited company registered in England and Wales under the Companies Acts 1948 to 1980 with registered number 1470151. Its registered office is at 6 Carlton Gardens, London SW1Y 5AD, United Kingdom and its telephone number is +44 (0)1252 373232.

BAE Systems delivers a full range of products and services for air, land and naval forces, as well as advanced electronics, security, information technology solutions and support services. BAE Systems has five home markets – Australia, India, the Kingdom of Saudi Arabia, the United Kingdom and the United States. As of 31 December 2011, BAE Systems employed 93,500 employees and in 2011 generated sales of £19,154 million and Underlying EBITA of £2,025 million through its wholly owned operations and equity accounted investments.

Organisation

BAE Systems has five principal reporting segments:

Electronic Systems

Electronic Systems comprises the US- and UK-based electronics activities, including electronic warfare systems and electro-optical sensors, military and commercial digital engine and flight controls, next-generation military communications systems and data links, persistent surveillance capabilities, and hybrid electric drive systems.

Cyber & Intelligence

Cyber & Intelligence comprises BAE Systems’ cyber, secure government, and commercial and financial security activities within the US-based Intelligence & Security business, and the UK-headquartered BAE Systems Detica business.

Platforms & Services (US)

Platforms & Services (US) comprises the US-headquartered Land & Armaments business, with operations in the US, UK, Sweden and South Africa, together with US-based services and sustainment activities, including ship repair and modernisation services.

Platforms & Services (UK)

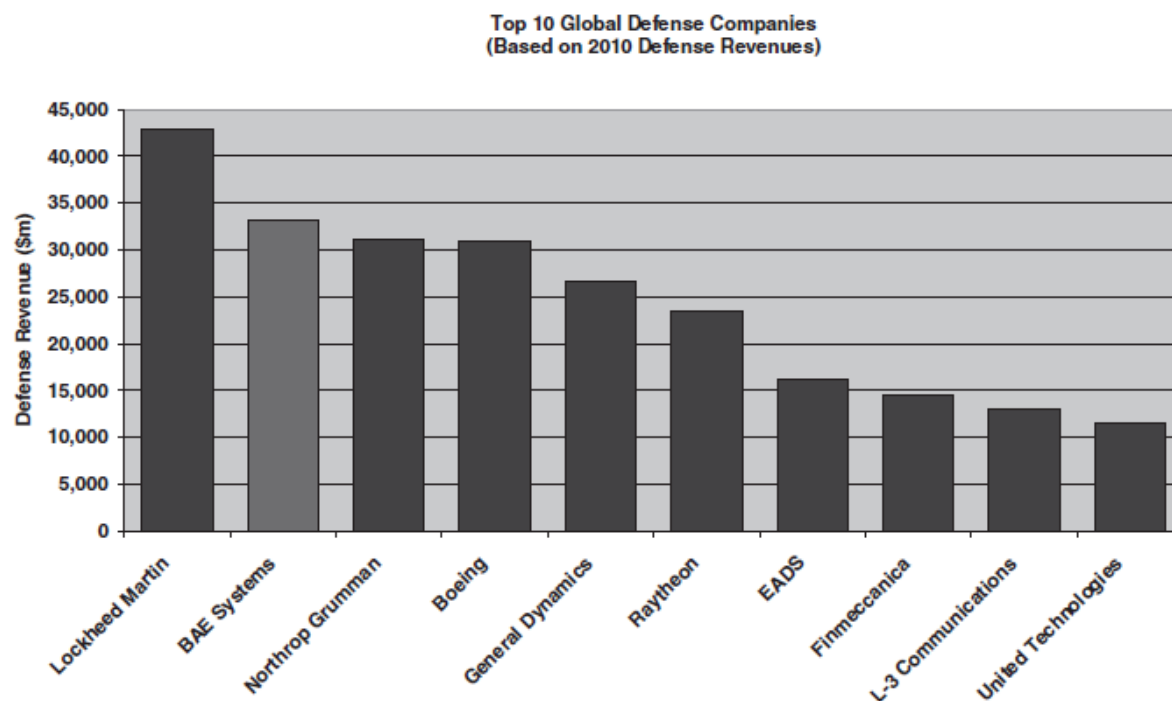
Platforms & Services (UK) comprises BAE Systems’ UK-based air and maritime activities, and certain shared services activities, including the UK-based Advanced Technology Centre.

Platforms & Services (International)

Platforms & Services (International) comprises BAE Systems’ businesses in Saudi Arabia, Australia, India and Oman, together with its 37.5 per cent. interest in the pan-European MBDA missile systems joint venture.

Home Markets

BAE Systems is a global defence, aerospace and security company. In 2010, BAE Systems was the second largest global defence supplier. The following table sets out BAE Systems' global market position among defence companies:



Source: Defense News

US

BAE Systems is a major supplier to the US Department of Defence, offering a balanced portfolio of products and services across defence and security domains, including the operational support of equipment used around the world by US forces and their allies. Whilst the US continues to lead global defence expenditure, investment spending is expected to decline as the government seeks to reduce its deficit. As a major supplier in the US market, BAE Systems is focusing on competitiveness and affordability to improve profit and cash generation.

UK

BAE Systems plays an important role in the UK's defence capabilities across air, maritime and land platforms, including military and technical service contracts. BAE Systems also operates in the security and intelligence domain, with customers in both government and commercial markets. The UK has benefited from better clarity on spending priorities following the publication of the Strategic Defence and Security Review in 2010, and BAE Systems is working with its customers to ensure their vital interests are secured.

Kingdom of Saudi Arabia

BAE Systems is a leading in-country defence supplier, supporting the operational capability of the Saudi air, land and naval forces, and investing in the development of Saudi indigenous defence capabilities. This established position continues to provide BAE Systems with opportunities to capture returns from this key market.

Australia

BAE Systems is the largest defence supplier, providing leading capability across air defence, land combat systems, maritime systems and security.

India

India continues to develop as a home market. BAE Systems is investing in its presence through technology sharing and inward investment in this growing defence and security market.

Recent Developments

In January 2012, BAE Systems provided an update relating to its Salam programme in the Kingdom of Saudi Arabia. This update included proposed changes relating to the final assembly of the last 48 of the 72 Typhoon aircraft, the creation of a maintenance and upgrade facility, initial provisioning for subsequent insertion of Tranche 3 capability in respect of the last 24 aircraft of the order, and formalisation of price escalation. Following budgets being approved in the Kingdom of Saudi Arabia in December 2011 on all these items, other than the price escalation, contracts valued at £0.4 billion have been received to date. Salam trading relating to the formalisation of price escalation, including significant cash receipts, remains deferred until on-going negotiations have been concluded.

Budgets were also established for the next five years of support on the core Saudi British Defence Co-operation Programme, including an upgrade of the training environment. Contract negotiations on these items are well advanced.

Approval of the US Department of Defense Fiscal Year 2012 budget in December 2011 has resulted in less disruption to the award of defence contracts compared with the corresponding period for 2011, when the US government was operating under a continuing resolution. However, with US government debt reduction measures to be determined and with Presidential and Congressional elections in November 2012, delay to the approval of Fiscal Year 2013 budgets is likely, with the possibility that the US government will operate under a continuing resolution in the last quarter of the 2012 calendar year. The risk of further reductions in United States defence budgets remains if “sequestration” comes into force in January 2013.

In March 2012, BAE Systems completed the sale of its BAE Systems Safety Products Inc. and Schroth Safety Products GmbH businesses in the US and Germany for cash consideration of approximately U.S.\$32 million (£20 million). The businesses generated sales of approximately U.S.\$40 million (£25 million) in 2011.

In April 2012, BAE Systems submitted its proposal for the supply of 12 Typhoon Tranche 3 standard aircraft, together with five-year availability-based support, pilot and ground crew training, and facilities, to the Royal Air Force of Oman.

Subject to Norwegian Parliament approval, BAE Systems expects to receive an order to supply the Norwegian armed forces with a combined total of 144 new and rebuilt CV90 vehicles and initial support, worth £0.5 billion.

Following recent valuations of BAE System’s two largest UK pension schemes; the BAE Systems Pension Scheme and the BAE Systems 2000 Pension Plan, and three smaller UK schemes, agreements with trustees were completed earlier this year. Additional deficit reduction payments of approximately £200m in aggregate are expected to be made over the next five years under these agreements.

BAE Systems has entered into an agreement for the sale of its Safariland, LLC business to a newly formed acquisition vehicle affiliated with Kanders & Company, Inc. for a cash consideration of approximately U.S.\$114 million. The Safariland business is headquartered in Ontario, California, and operates across five sites in the US and Mexico and had sales of U.S.\$206.2 million in 2011. The business employs approximately 1,700 people who design and manufacture innovative, high-quality protective products for law enforcement

and security customers worldwide. The sale of the Safariland business is conditional, among other things, upon certain regulatory approvals, and is expected to close in the second or third quarter of 2012.

Following agreement between the governments of the Kingdom of Saudi Arabia and the UK under the Saudi British Defence Co-operation Programme, on 23 May 2012 BAE Systems was awarded a contract for £1.6 billion (equivalent) to support the future aircrew training requirements of the Royal Saudi Air Force. The contract includes the supply of 22 new Hawk Advanced Jet Trainer aircraft, 55 Pilatus PC-21 aircraft and other aircrew training equipment, as well as an initial support package including the provision of spares, technical publications and post design support.

Board of Directors

The Board of Directors of the Issuer currently consists of eleven directors, three of whom are executives of the Issuer and eight of whom (including the Chairman) serve in a non-executive capacity.

The directors and their principal activities outside BAE Systems, where these are significant with respect to BAE Systems are set out below:

Name	Principal Activities outside BAE Systems (where significant with respect to BAE Systems)
Dick Olver (<i>Chairman</i>)	Member of the Prime Minister's Business Advisory Group Business Ambassador for UK Trade & Investment Member of the Prime Minister's India/UK CEO Forum Member of the Multinational Chairman's Group and the Trilateral Commission Fellow of the Royal Academy of Engineering Chairman of the Education for Engineering (E4E) Policy Group Adviser to HSBC and Clayton, Dubilier & Rice
Executive Directors	
Ian King (<i>Chief Executive</i>)	Non-executive director and Senior Independent Director of Rotork plc
Linda Hudson (<i>President and Chief Executive Director of BAE Systems, Inc.</i>)	Member of the United Service Organization's Worldwide Board of Governors Member of the Blue Star Families Board of Directors Member of the Executive Committee of Aerospace Industries Association Member of engineering advisory boards for engineering programmes at the universities of Maryland and Florida
Peter Lynas (<i>Group Finance Director</i>)	None
Non-Executive Directors	
Paul Anderson	Non-executive director of BP p.l.c.
Harriet Green	Currently Chief Executive Officer and executive director of Premier Farnell plc. Harriet Green will step down from the Premier Farnell plc board on 12 June 2012 and will be appointed Group Chief Executive of Thomas Cook Group plc on 30 July 2012.

Name	Principal Activities outside BAE Systems (where significant with respect to BAE Systems)
Lee McIntire	Non-executive director of Emerson Electric Co.
Sir Peter Mason	Chairman and Chief Executive of CH2M HILL Chairman of Thames Water and Senior Independent Director of Subsea 7 S.A.
Paula Rosput Reynolds	Chief Executive Officer and President of PreferWest, LLC Non-executive director of Delta Air Lines, Inc.
Nick Rose	Chairman of Edwards Group Limited and a non-executive director of BT Group plc and Williams Grand Prix Holdings plc
Carl Symon	None

The business address of each of the directors is c/o 6 Carlton Gardens, London SW1Y 5AD, United Kingdom.

There are no actual or potential conflicts of interest between the duties to BAE Systems of any of its directors and his/her private interests and/or other duties.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, expected to amount to approximately £397,000,000, will be used for general corporate purposes, including without limitation, the repayment of outstanding debt securities at maturity.

TAXATION

The comments below are of a general nature based on current United Kingdom tax law as applied in England and Wales and published HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) and are not intended to be exhaustive. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Bonds and Coupons and may not apply to certain classes of persons such as dealers, certain professional investors, or persons connected with the Issuer. Any Bondholders who are in doubt as to their own tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, should consult their professional advisers.

1 Withholding

While the Bonds continue to be listed on a recognised stock exchange within the meaning of Section 1005 Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the United Kingdom Listing Authority and are admitted to trading on the Market.

If the Bonds cease to be listed, interest will generally be paid by the Issuer under deduction of income tax at the basic rate unless:

- (i) when that interest is paid the Issuer reasonably believes (and any person by or through whom interest in the Bonds is paid reasonably believes) that the person beneficially entitled to the interest is:
 - (a) a company resident in the United Kingdom; or
 - (b) a company not resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account the interest in computing its United Kingdom taxable profits; or
 - (c) a partnership, each member of which is a company referred to in (a) or (b) above or a combination of companies referred to in (a) or (b) above,

and HM Revenue & Customs has not given a direction that the interest should be paid under deduction of tax; or

- (ii) the Issuer has received a direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

If interest were paid under deduction of United Kingdom income tax (e.g. if the Bonds lost their listing), Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment irrespective of the residence of the Bondholder. However, where the interest is paid without withholding or deduction on account of United Kingdom tax, the interest will not be assessed to United Kingdom tax in the hands of a Bondholder who is not resident in the United Kingdom, except where the Bondholder carries on a trade, profession or vocation through a branch or agency, or in the case of a corporate holder, carries on a trade through a permanent establishment in the United Kingdom, in connection with which the interest is received or to which the Bonds are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency, or permanent establishment.

Bondholders should note that the provisions relating to additional amounts referred to in “Terms and Conditions of the Bonds - Taxation” would not apply if HM Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

2 Information Reporting and Savings Directive

2.1 Information Reporting

Persons in the United Kingdom paying interest to, or receiving interest on behalf of, another person who is an individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

2.2 EU Directive on the Taxation of Savings Income

The Savings Directive requires an EU Member State to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual or certain other persons in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

3 Taxation of Disposal (including Redemption) and Return

3.1 Corporate Bondholders

Bondholders within the charge to United Kingdom corporation tax (including non-resident bondholders whose Bonds are used, held or acquired for the purposes of a trade carried on in the United Kingdom through a permanent establishment) will be subject to tax as income on all profits and gains from the Bonds broadly in accordance with their statutory accounting treatment. Such Bondholders will generally be charged in each accounting period by reference to interest and other amounts which, in accordance with generally accepted accounting practice, are recognised in determining the Bondholder’s profit or loss for that period. Fluctuations in value relating to foreign exchange gains and losses in respect of the Bonds will be brought into account as income.

3.2 Other Bondholders

3.2.1 Interest

Bondholders who are either individuals or trustees and are resident or ordinarily resident for tax purposes in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Bonds are attributable will generally be liable to United Kingdom tax on the amount of any interest received in respect of the Bonds.

3.2.2 Transfer (including redemption)

The Bonds are “qualifying corporate bonds” with the result that on a disposal of the Bonds neither chargeable gains nor allowable losses will arise for the purposes of taxation of capital gains.

3.2.3 *Accrued Income Scheme Language*

A transfer of a Bond by a Bondholder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Bond is attributable may give rise to a charge to tax on income in respect of an amount representing interest on the Bond which has accrued since the preceding interest payment date.

4 United Kingdom Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer by delivery of a Bond or on its redemption.

SUBSCRIPTION AND SALE

Merrill Lynch International, The Royal Bank of Scotland plc, BNP Paribas and Lloyds TSB Bank plc (the “**Managers**”) have, pursuant to a Subscription Agreement dated 6 June 2012, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Bonds at the issue price of 99.568 per cent. of their principal amount. In addition, the Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Bonds. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

General

Neither the Issuer nor any Manager makes any representation that any action will be taken in any jurisdiction by the Issuer or any Manager that would permit a public offering of the Bonds, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Manager has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on the Issuer or any other Manager in any such jurisdiction as a result of any of the foregoing actions.

United States

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement) within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

GENERAL INFORMATION

1. The listing of the Bonds on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Bonds on the Official List and admission of the Bonds to trading on the Market will be granted on or before 11 June 2012, subject only to the issue of the Temporary Global Bond. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction. The total expenses relating to the admission of the Bonds to the Official List and to trading on the Market are estimated to amount to £17,975.
2. The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by a resolution of the Banking Committee of the Issuer passed on 28 May 2012 pursuant to the terms of reference of the Banking Committee approved by the Board of Directors of the Issuer on 10 September 1997.
3. Except as disclosed in “Description of the Issuer – Recent Developments” on pages 21 and 22 of this Prospectus, there has been no significant change in the financial or trading position of the Issuer or of BAE Systems since 31 December 2011 and no material adverse change in the financial position or prospects of the Issuer or of BAE Systems since 31 December 2011.
4. Neither the Issuer nor any of its subsidiaries is involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer or BAE Systems.
5. Each Bond and Coupon will bear the following legend: *“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”*.
6. The Bonds have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 078968346. The International Securities Identification Number (ISIN) for the Bonds is XS0789683462.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.
7. The yield of the Bonds is 4.179 per cent. per annum on an annual basis. The yield is calculated as at 8 June 2012 on the basis of the issue price. It is not an indication of future yield.
8. For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Principal Paying Agent:
 - (a) the Memorandum and Articles of Association of the Issuer;
 - (b) the audited consolidated financial statements of the Issuer for the years ended 31 December 2011 and 31 December 2010, respectively;
 - (c) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus;
 - (d) the Trust Deed (which includes the form of the Temporary Global Bond, the Permanent Global Bond, the definitive Bonds and the Coupons) and the Paying Agency Agreement; and

(e) the Subscription Agreement referred to in “Subscription and Sale”.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html>.

9. KPMG Audit Plc of 15 Canada Square, London, E14 5GL (Chartered Accountants and Registered Auditors and a member of the Institute of Chartered Accountants in England and Wales) have audited, and rendered unqualified audit reports on, the consolidated financial statements of the Issuer for the two years ended 31 December 2011.
10. Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.
11. In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer’s affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds. Any such short positions could adversely affect future trading prices of Bonds. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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TRUSTEE

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PRINCIPAL PAYING AGENT

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PAYING AGENT

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To the Managers and the Trustee

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