

BAE Systems plc

Interim Management Statement for the period from 1 January 2010 to 4 May 2010

5 May 2010

BAE Systems plc today issues its interim management statement for the period from 1 January 2010 to 4 May 2010 in accordance with the requirements of the UK Listing Authority's Disclosure and Transparency Rules.

Trading for the period has been consistent with management expectations at the time of the 2009 preliminary results announcement on 18 February 2010. The Group continues to anticipate growth for three of its four operating groups, whilst at Land & Armaments return on sales will improve as rationalisation and efficiency programmes progress. In aggregate, and despite a planned lower level of land vehicle activity, the Group continues to expect growth for 2010 based on constant exchange rate assumptions.

The US Quadrennial Defense Review (QDR) was released in early February. The accompanying US defence budget for Fiscal Year 2011 identified growth in the investment account allocations at the upper end of the Group's planning assumptions. Through its US and UK businesses, BAE Systems is a significant participant in the F 35 Lightning II programme. The QDR restated the US's commitment to this large, next generation, combat aircraft programme.

Good order intake has been achieved in the period. Orders received include £360m on the Astute class submarine programme, including funding for the start of construction of the fifth boat and long lead procurement activities associated with Boat 6.

BAE Systems was also awarded a four year £127m contract by the UK Ministry of Defence to start development of a new generation of combat ships for the Royal Navy. The Type 26 class will be the first to be developed under the Future Surface Combatant programme, which is intended to replace the Type 22 and Type 23 frigates currently in service.

During March, the Group was awarded a £135m contract to commence series production of Archer 155mm self propelled artillery gun systems for the Swedish and Norwegian armed forces. Further orders for \$193m (£126m) have also been received for supply of Mine Resistant Ambush Protected vehicles.

Also in March, the UK government announced that it had not selected BAE Systems' proposal for the Future Rapid Effects System (FRES) Specialist Vehicles requirement. Whilst disappointing, this decision does not impact the outlook for the business given with the 2009 results announcement. The Group had already embarked on a significant programme of rationalisation in response to reducing land systems activity in the UK.

BAE Systems agreed the sale of half of its 20.5% shareholding in Saab AB in March. The share sale transaction is subject to regulatory approval and cash consideration is SEK1,041m (£94m). BAE Systems intends to dispose of its residual interest through a market placing in

due course. The Group's results for the year ended 31 December 2009 included sales and EBITA of £425m and £23m, respectively, in respect of its shareholding in Saab.

As a key step in the Group's strategy to develop a position in India as one of its home markets, a new, land systems focused, joint venture defence company, Defence Land Systems India Private Limited, was formed with Mahindra & Mahindra Limited in April. BAE Systems has agreed to contribute approximately \$6m (£4m) in cash in consideration for a 26% shareholding in the joint venture.

As previously reported, the Group was notified by the US Department of Defense in February that, following a re evaluation of bids, a follow on production contract for vehicles under the Family of Medium Tactical Vehicles programme had been lost. The impairment to goodwill and intangible assets of £592m arising from this loss of future business was reflected in the Group's 2009 published accounts.

As previously reported, BAE Systems announced in February a global settlement with the UK Serious Fraud Office and the US Department of Justice in connection with their long running investigations. These settlements were reflected in the Group's 2009 published accounts. Under the agreement with the Serious Fraud Office, the Company agreed to plead guilty to one charge of breach of duty to keep accounting records in relation to payments made to a former marketing adviser in Tanzania. The Company agreed to pay a penalty of £30m comprising a fine yet to be determined by the Court and a charitable payment for the benefit of Tanzania. Under the agreement with the Department of Justice, the Company pleaded guilty to one charge of conspiring to make false statements to the US government in connection with certain regulatory filings and undertakings. In March, the Company paid a fine of \$400m (£266m) and made additional commitments concerning its ongoing compliance. The Company has an ongoing dialogue with other US regulatory agencies in order to address their concerns regarding matters arising from the settlement with the Department of Justice.

With the announcement of its financial results in February, the Group announced the initiation of a programme to return up to £500m to shareholders by way of on market purchases of shares. As at 4 May, 72 million shares had been repurchased at a cost of £268m. The Group has commenced consultations with the trustees of its pension schemes and the Pensions Regulator to address any implications for the schemes arising from this repurchase programme.

In addition to the utilisation of cash for the share repurchase and regulatory penalties associated with the settlement with the Department of Justice and the Serious Fraud Office, an operating cash outflow is planned for the first half of the year. As previously forecast, material working capital utilisation in both the Programmes & Support and International operating groups is expected. However, a strong cash inflow is anticipated in the second half of 2010.

Directors and management

On 8 February 2010, Nick Rose was appointed a non executive director of the Company. Phil Carroll, also a non executive director, is retiring at the conclusion of the Company's Annual General Meeting to be held later today.

Following an organisational review, Mike Heffron, President of the Electronics, Intelligence and Support (EI&S) operating group has announced his intention to leave BAE Systems. Linda Hudson, President and Chief Executive Officer, BAE Systems, Inc., has been appointed head of the EI&S operating group pending a further organisational announcement.

Half-year results

BAE Systems will announce its financial results for the half year ending 30 June 2010 on 29 July 2010.

Cautionary statement

All statements other than statements of historical fact included in this Interim Management Statement are forward looking statements. Such forward looking statements, which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of BAE Systems or the market and economies in which BAE Systems operates to be materially different from future results, performance or achievements expressed or implied by such forward looking statements. Nothing in this Interim Management Statement shall be regarded as a profit forecast. BAE Systems plc and its directors accept no liability to third parties in respect of this Interim Management Statement, save as would arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000.

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