

**BAE Systems plc - Interim Management Statement
for the period from 1 January 2012 to 1 May 2012**

2 May 2012

BAE Systems plc today issues its Interim Management Statement for the period from 1 January 2012 to 1 May 2012 in accordance with the requirements of the UK Listing Authority's Disclosure Rules and Transparency Rules.

Trading for the period has been consistent with management expectations at the time of the 2011 preliminary results announcement on 16 February 2012. As previously indicated, whilst little sales growth can be expected for the Group in 2012 in the current market conditions, modest growth in underlying earnings per share is anticipated, assuming a satisfactory conclusion to Salam negotiations in 2012 and excluding the benefit of the 2011 Research & Development tax settlement. A higher level of operating business cash inflow is planned for the Group in 2012 with the anticipated benefit of cash receipts related to the Salam programme.

In January, the Group provided an update relating to its Salam programme in the Kingdom of Saudi Arabia. This update included proposed changes relating to 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 this order, and formalisation of price escalation. Following budgets being approved in the Kingdom in December 2011 on all these items, other than the price escalation, contracts valued at £0.4bn have been received to date.

Salam trading relating to the formalisation of price escalation, including significant cash receipt, remains deferred until ongoing 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.

The UK Ministry of Defence (MoD) has yet to announce the conclusions of its 2012 financial planning round. BAE Systems continues to work with the MoD to address the capability requirements for the new Queen Elizabeth class aircraft carriers, including embodiment of any changes to the contracted programme that may be required.

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, delay to the approval of Fiscal Year 2013 budgets is likely, with the possibility that the US government operates under a Continuing Resolution in the last quarter of calendar year 2012. The risk of further reductions in US defence budgets remains if "sequestration" comes into force in January 2013.

Funded order intake from markets outside the US and UK in the period was £1.1bn. In 2011, funded order intake from this broad international base totalled £4.8bn for the full year.

In April, the Group 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 Parliament approval, the Group 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 some £0.5bn.

In March, the Group 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 \$32m (£20m). The businesses generated sales of approximately \$40m (£25m) in 2011.

Pension funding

Following recent valuations of the Group'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 will be made over the next five years under these agreements.

Directors and management

In April, BAE Systems announced the resignation of Robert Murphy, a member of the Group's Executive Committee and Executive Vice President, Product Sectors for BAE Systems, Inc..

At the Group's Annual General Meeting on 2 May, Michael Hartnall, a non-executive director, will stand down from the Board having served nearly nine years in that capacity.

Half-year results

BAE Systems will announce its financial results for the half year ending 30 June 2012 on 2 August 2012.

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. 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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