

**BAE Systems plc - Interim Management Statement  
for the period from 1 January 2013 to 7 May 2013**

**8 May 2013**

BAE Systems plc today issues its Interim Management Statement for the period from 1 January 2013 to 7 May 2013 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 2012 results announcement on 21 February 2013 and our outlook remains unchanged. Modest growth in underlying earnings per share for 2013 is anticipated, subject to the continued uncertainties relating to US defence budgets. This excludes the benefit from the share repurchase programme initiated in February 2013. In addition, and assuming a satisfactory conclusion to discussions with the Kingdom of Saudi Arabia relating to the formalisation of price escalation on the Salam Typhoon programme, there would be a further increase of around 3 pence in underlying earnings per share.

This outlook does not reflect the impacts on US defence spending arising from Sequestration. In March 2013, legislation was passed to set funding levels for the remainder of the 2013 Fiscal Year, which has allowed some limited flexibility to enable near-term priorities to be pursued. In April, a Presidential Request for a Fiscal Year 2014 budget was tabled which would replace Sequestration with selective spending cuts. However, and notwithstanding these developments, there is at this point insufficient detail on which to base revised outlook assumptions.

With the announcement of the full year results in February, the Group initiated a share repurchase programme of up to £1bn over three years. Full implementation of the programme remains subject to satisfactory resolution of the Salam Typhoon price escalation negotiations. As at 7 May 2013, BAE Systems had purchased 17 million shares for £65m under the programme.

**US**

In February, the US Navy announced possible changes to a number of ship availability contracts reflecting continued budget uncertainty. As a consequence, BAE Systems issued precautionary Worker Adjustment and Retraining Notification (WARN) Act notices related to the possible lay-off of nearly 3,600 employees in the Group's US ship repair business. The funding legislation passed in March 2013 mitigated the impact of a majority of these notices, though funding for certain ships remains unclear and smaller, site-specific workforce adjustments may be required as a result.

In March, the Group was awarded a contract from the US Army valued at up to \$780m (£504m) over five years to continue the operation and management of the Holston Army Ammunition Plant in the US.

**UK**

In the UK, pressure on government spending continues, but the defence equipment environment

remains stable with no material changes to programmes, many of which are subject to long-term contracting arrangements.

The second of seven Astute class submarines was commissioned into the Royal Navy in February.

The sixth and final Type 45 destroyer was handed over to the Ministry of Defence in March. Discussions continue with the UK government to balance naval surface shipbuilding capacity in the UK with future warship demand in accordance with the Terms of Business Agreement signed in July 2009.

In February, BAE Systems and Vodafone agreed the formation of a five-year partnership to provide businesses with a range of advanced communications security products and services, initially focused on smartphones and tablets.

### **International**

International market activity remains strong with significant opportunities being pursued. Building on the international order intake in 2012, a further £2.3bn of non-UK/US orders have been received in the year to date.

Discussions continue with the Government of the Kingdom of Saudi Arabia relating to the formalisation of price escalation on the Salam Typhoon programme. Aircraft deliveries on the programme re-commenced in April.

In March, a £0.6bn weapons contract was awarded under the Saudi British Defence Co-operation Programme.

### **M&A activity**

In February, the Group completed the sale of its Commercial Armored Vehicles LLC business in West Chester, Ohio, to The O'Gara Group, Inc. for cash consideration of approximately \$10m (£6m).

### **Directors and management**

Sir Peter Mason, a non-executive director, retires from the Board of BAE Systems plc at the close of today's Annual General Meeting (AGM). Ian Tyler will join the Board as a non-executive director of the Company with effect from the close of today's AGM.

At the end of March, Larry Prior, Executive Vice President, Service Sectors, for BAE Systems, Inc. and a member of the Executive Committee, left the Group to pursue other opportunities. He has been replaced in those roles by David Herr, formerly President, BAE Systems Support Solutions.

### **Accounting change**

With effect from 1 January 2013, the Group has adopted IAS 19 (revised 2011), Employee Benefits. This replaces interest cost and expected return on plan assets with a finance cost on the pension deficit. The finance cost is calculated using the rate currently used to discount defined

benefit pension liabilities. As stated in the 2012 Annual Report, if this revised standard had been applied in 2012, reported pre-tax profit would have been £173m lower as the discount rate is lower than the expected return on plan assets. It should be noted that this is a non-cash charge and is excluded from the calculation of underlying earnings per share. The reported net pension deficit is unchanged under this revised accounting standard.

### **Half year results**

BAE Systems will announce its financial results for the half year ending 30 June 2013 on 1 August 2013.

### **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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