

BAE SYSTEMS PLC

14 October 2009

Interim Management Statement for the period from 1 July 2009 to 13 October 2009

BAE Systems plc today issues its Interim Management Statement for the period from 1 July 2009 to 13 October 2009 in accordance with the requirements of the UK Listing Authority's Disclosure and Transparency Rules.

Trading for the period has been consistent with management's expectations at the time of the half-year results announcement on 30 July 2009.

As previously indicated, the Group continues to anticipate a year of good growth for 2009 as a whole despite a lower volume of land vehicle sales than in 2008. A significant proportion of the Group's sales and profit is derived in US dollars, and translated into sterling at the average exchange rate for the period. When compared with 2008, the Group's trading results are expected to benefit from any continued weakness of sterling against the US dollar. The underlying interest charge is expected to increase in 2009 as a result of the cash cost of business acquisitions made in 2008 and the lower level of interest received on cash held.

The Group continues to anticipate a stronger operating cash inflow in the second half year than in the first.

Electronics, Intelligence & Support (EI&S)

The Group continues to see good demand for the high technology capabilities of its EI&S operating group. In September, BAE Systems was one of two companies selected to participate in an indefinite-delivery/indefinite-quantity contract with a maximum value of \$1.9bn (£1.2bn) for the Driver's Vision Enhancer Family of Systems, a system of infrared sensors that provides 24-hour all-weather visibility to operators of ground vehicles. An initial order for 338 systems, valued at \$10.7m (£6.7m), was received during the period.

Land & Armaments

At the end of August, the Group was notified by the US Department of Defense (DoD) that it had lost a build-to-print competition for follow-on production of vehicles under the Family of Medium Tactical Vehicles (FMTV) programme. On 4 September, BAE Systems informed the DoD that it was protesting this decision. The implications for the Group cannot be fully assessed until the outcome of this protest has been determined.

The FMTV programme was part of the Armor Holdings, Inc. (Armor) business acquired in 2007. As at 30 June 2009, the goodwill and other intangible assets carried in the Group's balance sheet relating to the Armor acquisition amounted to \$3.8bn (£2.4bn). Should the

Group's protest at the loss of the contract be unsuccessful, significant impairments would result. The cash costs of a cessation of FMTV activity would not be expected to be material.

Production of FMTV vehicles continues through to the fourth quarter of 2010 under BAE Systems' existing contracts. The Group's financial planning assumptions anticipate FMTV sales in each of 2009 and 2010 of approximately \$2bn (£1.3bn). It is not anticipated that this activity will be impacted by the DoD's decision regarding the follow-on contract. The Group had planned for FMTV sales to reduce to less than \$1bn (£0.6bn) per annum over the period from 2011 to 2014 assuming that the Group had been awarded the follow-on contract.

Programmes & Support

Following the significant UK Ministry of Defence (MoD) support contracts awarded earlier this year, further contracts were awarded in the period. In August, a £370m ten-year contract was awarded to support Spearfish and Sting Ray torpedoes in service with the Royal Air Force and Royal Navy. In September, the Group was awarded its first major UK naval support contract with the Type 45 anti-air warfare destroyer In-Service Support contract valued at £309m over seven years.

In July, contracts were agreed by the four European partner nations for 112 Tranche 3 Typhoon aircraft with a contract value to the Group of approximately £2bn, extending visibility of production for the next five years.

In September, following a detailed review of current and projected business levels, BAE Systems announced the start of consultation regarding the potential closure of its Woodford site in the UK at the end of 2012 on completion of the Nimrod MRA4 production contract, and additionally regarding job losses at a further three sites. A reduction of approximately 1,100 jobs in the Military Air Solutions business is anticipated.

In July, BVT Surface Fleet Limited (BVT) and the UK MoD entered into a definitive Terms of Business Agreement which sets out a 15-year partnering arrangement, including lead roles for the BVT business on defined surface shipbuilding and support programmes.

In September, BAE Systems and VT Group plc (VT) signed an agreement under which VT exercised its option to sell its 45% shareholding in BVT to BAE Systems. The consideration for the sale of approximately £346m is to be satisfied in cash.

VT will also inject £43m of capital into BVT in settlement of certain other matters, including claims in respect of certain export contracts which were contributed by VT into the BVT business. In addition, VT will pay a further £4.7m to BVT in respect of certain intercompany balances. The capital injection and intercompany payment will take place at completion of the transaction.

BAE Systems will receive from VT in cash at completion of the transaction approximately £70m (comprising £65m, plus accrued interest) in deferred payment for the sale on 1 July 2008 to VT of the Group's 50% shareholding in Flagship Training Limited.

The transaction is subject to both regulatory and VT shareholder approval. Completion is expected to take place in the fourth quarter.

International

The Royal Saudi Air Force (RSAF) has commenced flying operations following the delivery of the first four of 72 Typhoon aircraft. The governments of the Kingdom of Saudi Arabia and the United Kingdom have reached agreement on detailed arrangements under the Salam Support Solution that will provide support for operations for a three-year period. These arrangements will be operated through a full availability service contract with BAE Systems, the first of its kind for Typhoon. The contract also includes training in the United Kingdom for RSAF Typhoon pilots and Typhoon multi-skilled aircraft technicians.

Following the acquisition of Tenix Defence in June 2008, discussions with the vendor relating to the performance of certain contracts continue as part of the completion accounting process.

Serious Fraud Office (SFO) announcement

On 1 October, the SFO announced that it intends to seek the Attorney General's consent to prosecute BAE Systems for offences relating to overseas corruption following the SFO's investigation into the business activities of BAE Systems in Africa and Eastern Europe.

The Group continues to expend considerable effort seeking to resolve, at the earliest opportunity, the historical matters under investigation by the SFO.

BAE Systems has at all times acted responsibly in its dealings with the SFO, taking into account the interests of its shareholders and employees and the legal advice it has received.

If the Director of the SFO obtains the consent that he seeks from the Attorney General and proceedings are commenced, the Group will deal with any issues raised in those proceedings at the appropriate time and, if necessary, in court. At this stage, it is not possible to determine the possible future financial effects that might result from this matter.

Pension funding

Payments of £100m in respect of the UK pension schemes and \$250m (£162m) to the US pension schemes were made during the period as part of the incremental contributions to the Group's pension schemes announced earlier this year. A non-recurring accounting gain of approximately \$410m (£266m) in the second half of the year is expected to arise from a reduction in the Group's pension deficit as a result of further pension benefit restructuring to be undertaken in the US.

Board of directors

In August, the Group announced that Sir Nigel Rudd, a non-executive director, would retire from the Board of BAE Systems plc with effect from 31 December 2009. Carl Symon, a non-executive director, has been appointed Chairman of the Board's Remuneration Committee in place of Sir Nigel.

On 8 October, Paul Anderson was appointed a non-executive director of BAE Systems plc.

Full year results

BAE Systems will announce its financial results for the year ending 31 December 2009 on 18 February 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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