

**BAE Systems plc - Interim Management Statement
for the period from 1 July 2011 to 11 October 2011**

12 October 2011

BAE Systems plc today issues its Interim Management Statement for the period from 1 July 2011 to 11 October 2011 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 half-year results announcement on 28 July 2011.

The Group is assessing the implications of serious flood damage at its Johnson City electronics facility following recent severe weather along the US east coast. This may result in some sales deferral to 2012, but is not expected to be material to this year's earnings.

Some near-term disruption to trading is anticipated as the US administration again operates federal budgets under a Continuing Resolution.

Delivery of the first 24 Typhoon aircraft to the Royal Saudi Air Force under the Salam programme has been completed. The Group remains in negotiations regarding changes to the programme and formalisation of price escalation. These are planned to be concluded by the end of the year.

The Group continues to anticipate that underlying earnings per share for the year will be broadly similar to 2010's restated earnings.

With constraints on government expenditure in many of the Group's principal markets, affordability continues to be a key focus for customers. In particular, there is significant uncertainty as to the level of future defence spend in the US with a range of options for national deficit reduction being considered.

Major cost reductions have been, and continue to be, implemented to address changes in customer priorities and, in some areas, reduced business activity. As part of these efficiency improvements, and to address programme changes including a planned reduction in the Typhoon production rate, the Group announced in September approximately 3,000 potential job losses in the UK. The business environment remains challenging, but the early implementation of these and other efficiency improvements underpins the Group's competitive position.

In August, as one of two successful bidders, BAE Systems, together with Northrop Grumman, was awarded a \$450m (£289m) contract to participate in the 24-month technology development phase of the US Army's Ground Combat Vehicle programme. The award is being protested by SAIC.

The contract to manage, operate and maintain the Radford Army Ammunition Plant in the US, which was awarded to BAE Systems in May, remains under protest by the incumbent contractor. The contract is worth approximately \$850m (£546m) over ten years.

The Group is pursuing a number of significant new business opportunities. In September, the Group announced that it is teaming with Northrop Grumman to propose a Hawk aircraft-based solution to meet the requirement for the replacement of the US Air Force's T-38 jet trainer. The Group continues in discussions regarding the possible sale of Typhoon aircraft to the Sultanate of Oman. Typhoon is also one of two combat aircraft types selected for further evaluation to meet the Indian Air Force's Medium Multi-Role Combat Aircraft requirement. In addition, a number of land vehicle prospects continue to be progressed.

M&A activity

In July, the sale of the Group's Regional Aircraft Asset Management business was completed for cash consideration of approximately \$190m (£118m) subject to completion adjustments.

Also in July, the sale of the Group's US Composite Structures business was completed for cash consideration of approximately \$33m (£21m).

In September, BAE Systems announced the sale of its Advanced Ceramics business in the US for cash consideration of approximately \$7m (£4m).

Balance sheet and cash flow

In July, the Group commenced a further share repurchase programme of up to £500m. As at 11 October, 112 million shares had been repurchased at an aggregate cost of £303m. Consistent with last year's programme, the Group anticipates accelerated pension deficit funding of £157m, in the final quarter of the year, following discussions with pension scheme trustees.

The Group's balance sheet will continue to be managed conservatively, in line with the Group's policy to retain its investment grade credit rating, and to ensure operating flexibility, whilst:

- meeting its pension obligations;
- continuing to pursue organic investment opportunities;
- paying dividends in line with the Group's policy of long-term sustainable cover of around two times;
- making accelerated returns of capital to shareholders when appropriate; and
- investing in value enhancing acquisitions.

In October, the Group raised \$1.25bn (£0.8bn) in the US bond market. Three tranches of notes were issued, \$350m (£224m) due in 2016 with a coupon of 3.5%, \$500m (£321m) due in 2021 with a coupon of 4.75% and \$400m (£257m) due in 2041 with a coupon of 5.8%. A \$1bn (£0.6bn) 6.4% bond is due to be repaid in December 2011.

The Group continues to anticipate an operating cash inflow in the second half of 2011, the level of which remains dependent on timely completion of the negotiations on the Salam programme.

Pension funding

Triennial funding valuations of the Group's two largest UK pension schemes continue. Revised deficit funding agreements are expected to be finalised prior to the full year results announcement.

Board

Having completed a second term of three years as a non-executive director, Roberto Quarta has advised the Company that he will be standing down from the Board at the end of the year.

Reporting segment restatement

Changes to the Group's external reporting segments are planned to improve the alignment of reporting with both markets served and management of operations. Details of these changes, together with prior period reconciliations, will be published on 19 October 2011.

Full year results

BAE Systems will announce its financial results for the year ending 31 December 2011 on 16 February 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. 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.

Issued by:
BAE Systems plc
London