

BAE Systems plc - Interim Management Statement for the period from 1 July 2012 to 10 October 2012

11 October 2012

BAE Systems plc today issues its Interim Management Statement for the period from 1 July 2012 to 10 October 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 half-year results announcement on 2 August 2012. As indicated previously, modest growth in underlying earnings per share is anticipated for 2012, assuming a satisfactory conclusion to the pricing negotiations this year with the Saudi Arabian government on the Typhoon Salam programme and excluding the benefit in 2011 of the Research & Development tax settlement. A higher level of operating business cash inflow is planned for the Group in 2012 including the anticipated benefit of cash receipts related to the Salam programme.

Market environment

In the UK, the defence environment remains stable following the significant changes to priorities identified by the Strategic Defence and Security Review in 2010.

Uncertainty as to how US federal deficit reduction will be implemented, including possible sequestration measures, continues to cloud the outlook for the US government defence budget. Some limited trading disruption is likely in the last quarter of the 2012 calendar year as the US government operates under a Continuing Resolution from 1 October 2012.

New business

In August, the UK government reaffirmed its commitment to the Type 26 next generation of Royal Navy frigates, detailing the requirements for replacing Type 23 frigates from 2021.

In the US, BAE Systems received a \$306m (£190m) contract modification to upgrade 353 Bradley fighting vehicles, funding the programme into 2014.

In August, BAE Systems, as part of the industry team led by Lockheed Martin, was one of three down-selected for the Engineering and Manufacturing Development phase of the US government's potentially large Joint Light Tactical Vehicle programme.

In Saudi Arabia, following the award of a £1.6bn contract in May to support the Royal Saudi Air Force's future aircrew training requirements, BAE Systems has been awarded a six-month extension to the current aircraft support contract on the Typhoon Salam programme.

Negotiations with the customer continue in respect of the Typhoon Salam programme for the next five years of support, the construction of maintenance and upgrade facilities in-Kingdom, and for capability enhancement. Negotiations also continue on the Saudi British Defence Co-operation Programme for the next five years of support, including additional awards associated with the training environment and weapons procurement. These negotiations cover contracts worth in excess of £7bn.

Contract negotiations with the Omani Ministry of Defence for the supply of 12 Typhoon Tranche 3 aircraft and associated support are expected to be concluded this year.

In South Korea, BAE Systems was selected as the sole source systems integration contractor to upgrade more than 130 F-16 aircraft. This is a significant win with the potential for further business in a large addressable market for F-16 avionics upgrades.

M&A activity

Portfolio streamlining in the Land & Armaments business has continued. In July, the disposals of the Group's US-based Safariland, LLC business and assets comprising its Tensylon High Performance Materials Inc. business were completed for cash consideration of approximately \$124m (£77m) and \$18m (£11m), respectively.

Termination of talks regarding the possible merger of BAE Systems and EADS N.V. (EADS)

On 12 September 2012, BAE Systems announced that it was in discussions with EADS regarding a possible combination of their businesses. As discussions progressed further over recent weeks, it became clear that the interests of the parties' government stakeholders could not be adequately reconciled with each other or with the objectives that BAE Systems and EADS established for the merger. BAE Systems and EADS therefore announced on 10 October 2012 that it was in the best interests of their companies and shareholders to terminate the discussions and to continue to focus on delivering their respective strategies.

In that announcement, Ian King, Chief Executive of BAE Systems, said:

"We are obviously disappointed that we were unable to reach an acceptable agreement with our various government stakeholders. We believe the merger presented a unique opportunity for BAE Systems and EADS to combine two world class and complementary businesses to create a world leading aerospace, defence and security group.

However, our business remains strong and financially robust. We continue to see opportunities across our platforms and services offerings and in the various international markets in which we operate. We remain committed to delivering total shareholder value and look to the future with confidence."

Full year results

BAE Systems will announce its financial results for the year ending 31 December 2012 on 21 February 2013.

Annual General Meeting

The Annual General Meeting of BAE Systems plc will be held on 8 May 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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