
**BAE Systems plc – Interim Management Statement
for the period from 1 January 2011 to 3 May 2011**

4 May 2011

BAE Systems plc today issues its Interim Management Statement for the period from 1 January 2011 to 3 May 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 2010 preliminary results announcement on 17 February 2011, assuming constant exchange rates. The Group continues to anticipate a reduction in sales in 2011 as the volume adjustment in Land & Armaments is expected to complete and as the changes arising from the Strategic Defence and Security Review (SDSR) reduce activity in the UK businesses. The continuing actions to lower cost and improve efficiency are expected to benefit return on sales and mitigate the impact of that lower activity. In addition, the 2011 results will benefit from the non-recurrence of the Trinidad and Tobago charge. The 2011 performance is expected to be weighted to the second half of the year, primarily reflecting the negotiation of changes to the Saudi Salam programme anticipated later this year.

Contract amendments in the period include incremental order intake of approximately £0.9bn on the Queen Elizabeth Class Carrier programme reflecting the target price agreed prior to changes to the programme that may be required by the SDSR.

Settlement agreements are being progressed following changes to the UK programmes impacted by the SDSR in 2010, including those for the terminated Nimrod MRA4 and Harrier programmes.

Delayed approval of the US administration's 2011 budgets and the resulting period of Continuing Resolution is not expected to have a material impact on the Group's full year results.

M&A activity

The Group has continued to develop in line with its strategy through targeted acquisitions and disposals during the period in the market segments of Cyber & Intelligence and Electronic Systems.

In Cyber & Intelligence, the Group completed the following acquisitions:

- In January, stratsec.net Pty Ltd, an information security company with offices in Australia, Malaysia and Singapore, was acquired for cash consideration of A\$24m (£15m).
- In February, L-1 Identity Solutions, Inc.'s Intelligence Services Group was acquired for cash consideration of approximately \$297m (£184m). The business is a leading provider of security and counter threat capabilities to the US government.
- Also in February, Norkom Group plc was acquired for cash consideration of €209m (£177m). Norkom is a market-leading provider of innovative anti-money laundering solutions to counter financial crime to the global financial services industry.

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- In March, ETI A/S was acquired for cash consideration of DKK1.2bn (£135m). Based in Denmark, ETI is a leading provider of advanced technology products and services to government and commercial clients worldwide.

In Electronic Systems, BAE Systems completed the acquisition of the 91.3% of outstanding equity of Fairchild Imaging, Inc. not already held by the Group in April for cash consideration of approximately \$86m (£54m). Fairchild is a provider of solid-state electronic imaging components, cameras, and systems for aerospace, industrial, medical, and scientific imaging applications.

In aggregate, cash expended on acquisitions in the period totalled approximately £0.6bn.

In January, BAE Systems announced it had sold its Swiss-Photonics AG group to Forensic Technology WAI Inc. for cash consideration of approximately \$11m (£7m).

Balance sheet and pension funding

An operating cash outflow is planned for the first half of the year, with material working capital utilisation in both the Programmes & Support and International operating groups expected. However, a strong cash inflow is anticipated in the second half of 2011.

In April, the trustees of the Group's two largest UK pension schemes, the BAE Systems Pension Scheme and the BAE Systems 2000 Pension Plan, commenced their triennial funding valuations. These valuations are expected to identify increases in the deficits since the last valuations. Subsequent discussions with the trustees regarding the implications for deficit funding are expected to be completed within 12 months.

The Group continues to pursue a balanced approach to capital allocation, including addressing pension scheme funding, organic and acquisition investment opportunities, and returns to shareholders through a progressive dividend policy. Accelerated returns, such as last year's share buyback, remain an option to address any extended period of balance sheet inefficiency.

Regulatory

Following the settlement of the regulatory investigation by the US Department of Justice in February 2010, dialogue continues with other US regulatory agencies in order to address their concerns regarding matters arising from the settlement.

Directors and management

George Rose, Group Finance Director, retired from the Board on 31 March 2011 after 19 years with the Group. Peter Lynas, previously Director, Financial Control, Reporting and Treasury, was appointed Group Finance Director with effect from 1 April 2011, and joined the Board and Executive Committee on that date.

Also with effect from 1 April 2011, Ravi Uppal, a non-executive director, stood down from the Board and Paula Rosput Reynolds was appointed a non-executive director of the Company.

Half-year results

BAE Systems will announce its financial results for the half year ending 30 June 2011 on 28 July 2011.

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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