

**OUR VISION>  
TO BE THE LEADING  
SYSTEMS COMPANY,  
INNOVATING FOR  
A SAFER WORLD**

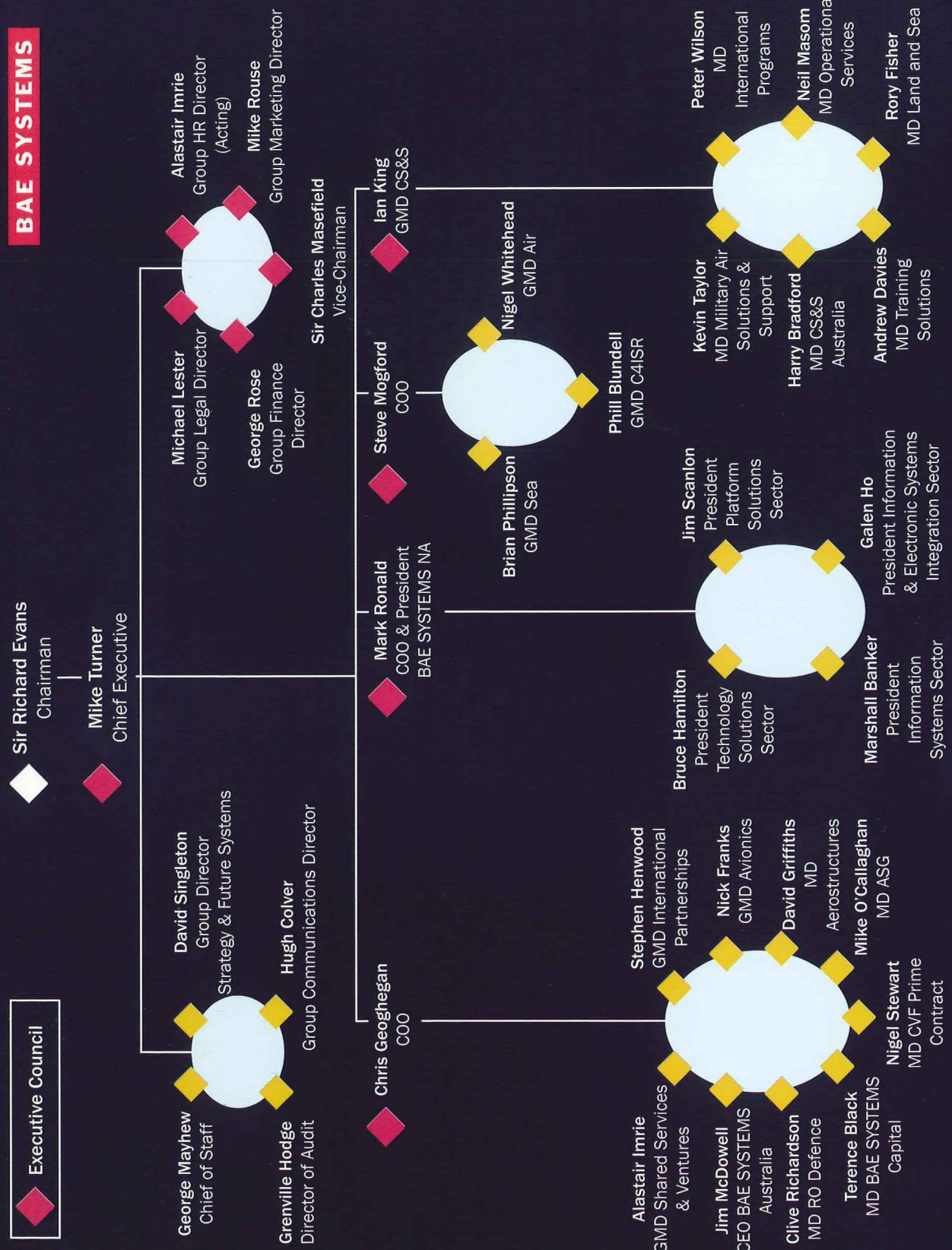


employee | business | plan | 2003 | **BAE SYSTEMS NORTH AMERICA**



**OUR PATH TO SUCCESS>  
TO BE THE PREMIER  
TRANSATLANTIC DEFENSE  
COMPANY AND LEAD  
SUPPLIER OF PRIME  
SYSTEMS SOLUTIONS**

**BAE SYSTEMS**



Introduction



> **It is often said that** we live in a changing world, and this is particularly true of BAE SYSTEMS. Our markets continue to evolve at an unprecedented pace, and if we are to succeed, we too must evolve. The image of the hummingbird below is a reference to the vertical take-off Harrier, one of the most innovative solutions we have ever developed in response to a customer need. While this Employee Business Plan explains the challenges we face in 2003 and details what we need to do, this image reminds me of the incredible talent of the 100,000 networked people who will deliver our strategy.

And there is one thing that every single one of us must do in 2003: we must deliver. Our customers have told us repeatedly that what they really want from us are projects delivered on time and to budget. In doing so, however, we must come up with new ways of doing things and remain open to new ideas. We must also put the Customer at the heart of everything we do, as it is only by delivering the solutions to our Customers' problems that we will live our Vision.

Best wishes for 2003.

**WHO MADE ONE OF THESE WEIGHING IN AT 7 TONS ?**

THE KNOW-HOW THAT GOT THE HARRIER "JUMP JET" OFF THE GROUND AND THEN GAVE IT THE MANEUVERABILITY OF A HUMMINGBIRD CAME FROM OUR RESEARCH PEOPLE.

THEY DEVELOPED THE REVOLUTIONARY V/STOL TECHNOLOGY THAT ENABLES AN AIRCRAFT TO HOVER AND TAKE OFF AND LAND VERTICALLY.

JUST ONE OF THE INNOVATIVE IDEAS FROM BAE SYSTEMS THAT HELP TO MAKE THE WORLD A SAFER PLACE.

**BAE SYSTEMS**  
INNOVATING FOR A SAFER WORLD

## What does the BAE SYSTEMS Vision mean?

> **What exactly does our Vision mean?** Our Vision describes the way we as a company wish to be perceived, and how we see ourselves. There are several aspects to this:

### To be a leading systems company

Being a leader can be defined as having an advantaged market position (typically number 1 or 2 in market share) such that superior financial returns can be made. This influences our choice of markets.

### Why are systems important?

Systems are at the very heart of the need to provide new solutions to meet new challenges. In today's battle space, information needs to be collected, sorted, and relayed to decision-makers for action extremely quickly. The environment can include a wide variety of technical equipment of varying ages and capability being required to operate over a broad geographical area. It's important that we are able to integrate the old with the new, and the current with the future.

**“to be the leading systems company, innovating for a safer world”**

### What do we mean by innovating?

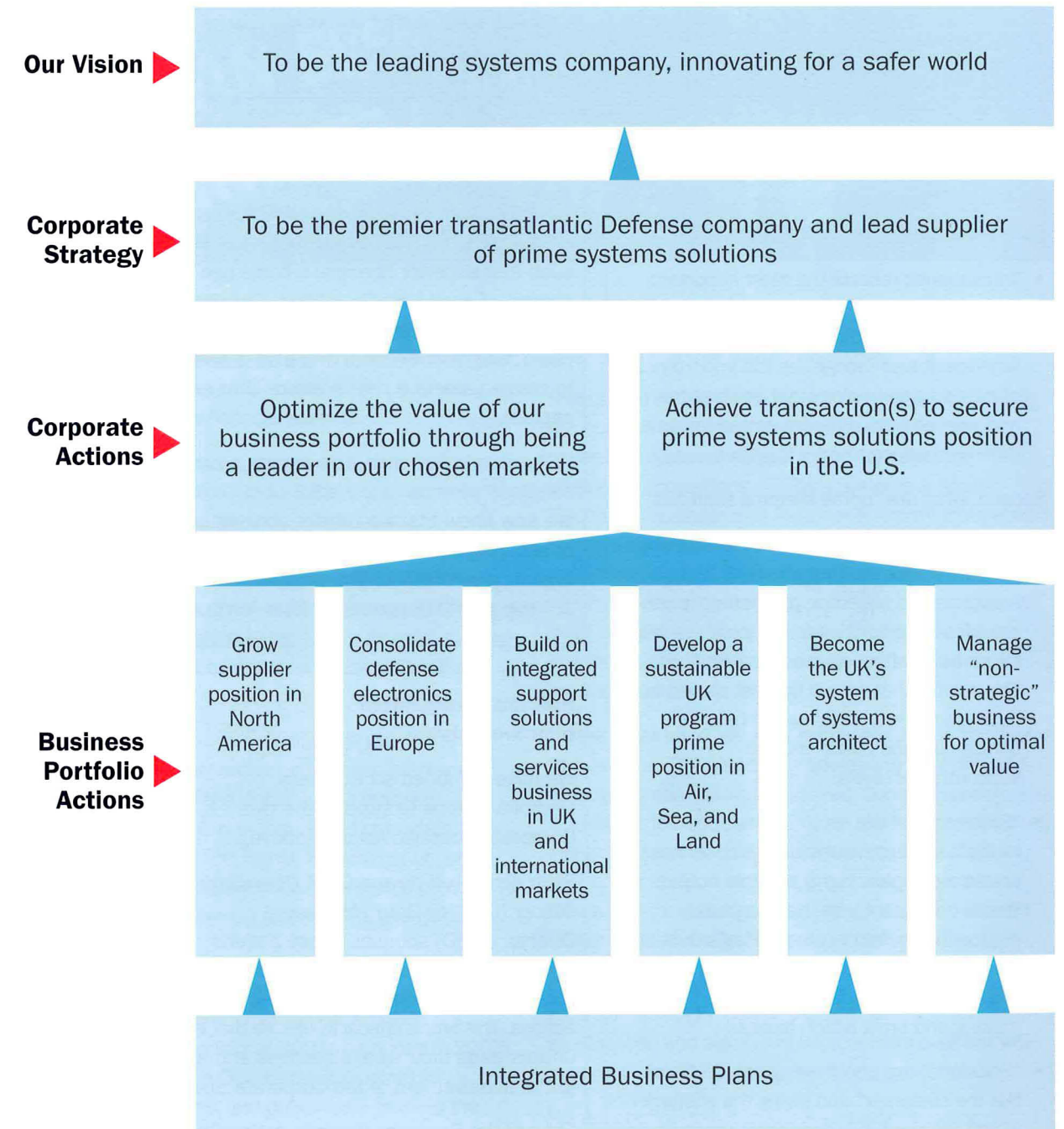
The technologies that we are talking about are part of BAE SYSTEMS. We are proud of the fact that we have been driving ourselves up the technology curve so that we are uniquely placed to take advantage of the changes now unfolding. But innovating isn't just about developing an exciting area of technology or a leading edge product. It is about continually improving the way we do things, and being open-minded, flexible and responsive to new opportunities.

Innovation is critical, because without it we lose competitive advantage. I think of innovation as taking place on a number of levels – sustaining, evolutionary, and transformational. Sustaining is all about ideas that lead to more efficient ways of working or a better product for the customer. For example, flexible infrastructure designed for Typhoon assembly proposed in Warton has improved the JSF production strategy. Evolutionary innovation is where new ideas allow us to improve our position in a particular product or market; for example, where CS&S are delivering support and training for the Entry Into Service of the Typhoon program. This is a radical approach to the entry into service of a new aircraft with the RAF and BAE SYSTEMS personnel working as a combined team to maintain the aircraft for the first 18 months of service. Then there is transformational – opening us up to completely new products, services, and markets. And this is what's driving our C4ISR business.

### What is our contribution to a safer world?

The events of 9/11 raised some fundamental questions about how nations protect themselves against the uncertainty of terrorist attack. There are further issues to address regarding how we need to work together as a community – with governments, the armed forces, and the supply chain to provide new capabilities for this new environment. The world has changed – and the unpredictable nature of threats of attacks by unconventional methods means that our work to protect those who go into harm's way has become even more critical.

## Our Corporate Strategy is supported by clear actions to provide traceability from our Vision to our Integrated Business Plans (IBPs)



## What do we need to do to achieve our Vision?

As a diverse company, sharing one Vision, we have adopted a single Corporate Strategy.

This is the focal point for all our other strategies and actions:



"To be the premier transatlantic Defense company and lead supplier of prime systems solutions"

First, what do we mean by "transatlantic"?

- Transatlantic reflects the most important Defense markets. This means having a presence in both the UK/Europe and North America. It also recognizes the importance of providing technology that enables men and women from different armed forces and different nations to work together.

Second, what are "prime systems solutions"?

- "Prime" simply means a direct relationship with the customer. This allows us to develop a relationship based on partnering. It also provides opportunities for us to create value as we have influence over the supply chain. This means that we will be best placed to optimize our total risk/reward balance across both the Prime and the subcontractor levels.
- "Systems" are the result of integration of multiple products, subsystems or services to create a complex, highly capable output. This is consistent with the integrated approach required to meet today's threats. Systems allow us to gather and manage large quantities of data to facilitate decision-making and bring action to bear.
- "Solutions" are about being able to "think like the customer" and giving the customer what they need. It is especially important that we are able to anticipate the customers' needs when things are changing fast.

This is an ambitious strategy, so how do we achieve it?

We have identified two Corporate Strategic Actions that will be the focus of the Executive Council:

1. Optimize the value of our business portfolio through being a leader in our chosen markets

We have already defined being a leading systems company as having an advantaged market position (typically number 1 or 2 in market share) such that superior financial returns can be made in the context of each specific market. Our chosen markets should therefore be those that both achieve the strategic positioning that we seek and also provide the opportunity to create value (i.e., earn returns that exceed our cost of capital).

2. Achieve transaction(s) to secure a prime systems solutions position in the U.S.

We now know that we will not achieve our goal of securing a prime systems position in the U.S. by organic growth alone. Therefore, our second action is to achieve growth by acquisition(s) in North America.



How are we organized to deliver this?

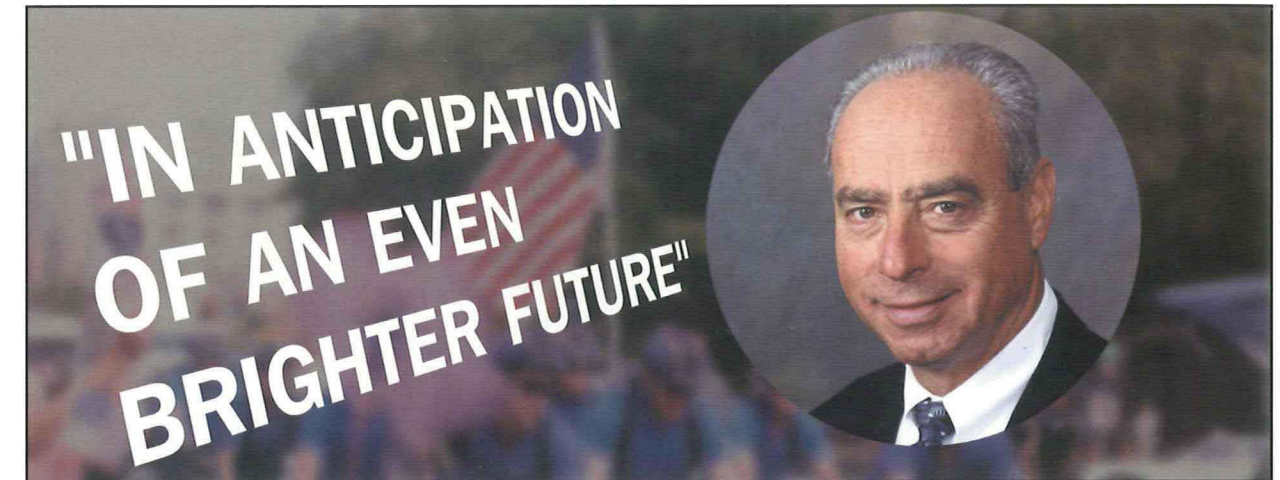
We have identified six Business Portfolio Actions to support the two Corporate Strategic Actions (above):

Each action will have a Chief Operating Officer (COO) or Group Managing Director (GMD) sponsor. These actions will provide the focus for the translation of the Corporate Strategy and actions into Business Group objectives and actions. This link is critical to ensure that everyone understands their local objectives and how they contribute to the achievement of the Corporate Strategy.

Each of the Business Portfolio Action Sponsors is responsible for ensuring that the Integrated Business Plans (IBPs) are delivered in support of these actions by each of the Business Groups.



## North America Introduction



Fellow employees,

BAE SYSTEMS North America had another great year overall in 2002. The increased demand from our military customer community helped us exceed the business plan targets for all key financial salients.

We had a number of new program wins, including key roles on the Joint Tactical Radio System and the Warfighter Information Network – Tactical, study contracts for the Future Combat Systems, and the prime contract to demonstrate the Adaptive Joint C4ISR Node. Program performance remains strong. We earned over 95 percent of all available award fees, continued to grow our technical services business, and won all services recompetes.

We have continued to increase our business in the classified imagery, geospatial, and mission planning markets in support of the global war on terrorism. Aircraft and launch vehicles that rely on our systems had numerous successful first flights. We also continued to implement and expand several company-wide process initiatives that are delivering real benefits and gaining momentum.

In the training and development arena, we have expanded Performance Centered Leadership to 550 employees (with an additional 300 to be added in 2003), launched a Leadership Development Program for potential future leaders, and published a guide to the multitude of training and development options available to employees in North America.

In support of these accomplishments and in anticipation of an even brighter future, we completed five major

building expansion projects in 2002 and increased employment by over 1,000 employees.

Throughout 2002, we continued the process of shaping our portfolio by aligning businesses with our core markets of systems, software, and services. Our attempted acquisitions of TRW's Systems & Space Electronics business and Raytheon's Aircraft Integrated Systems addressed potential foreign ownership considerations and allowed us a level playing field with which to pursue the transactions. While either of these deals would have been truly transformational, we were unwilling to pay the high premium required to prevail in the auctions.

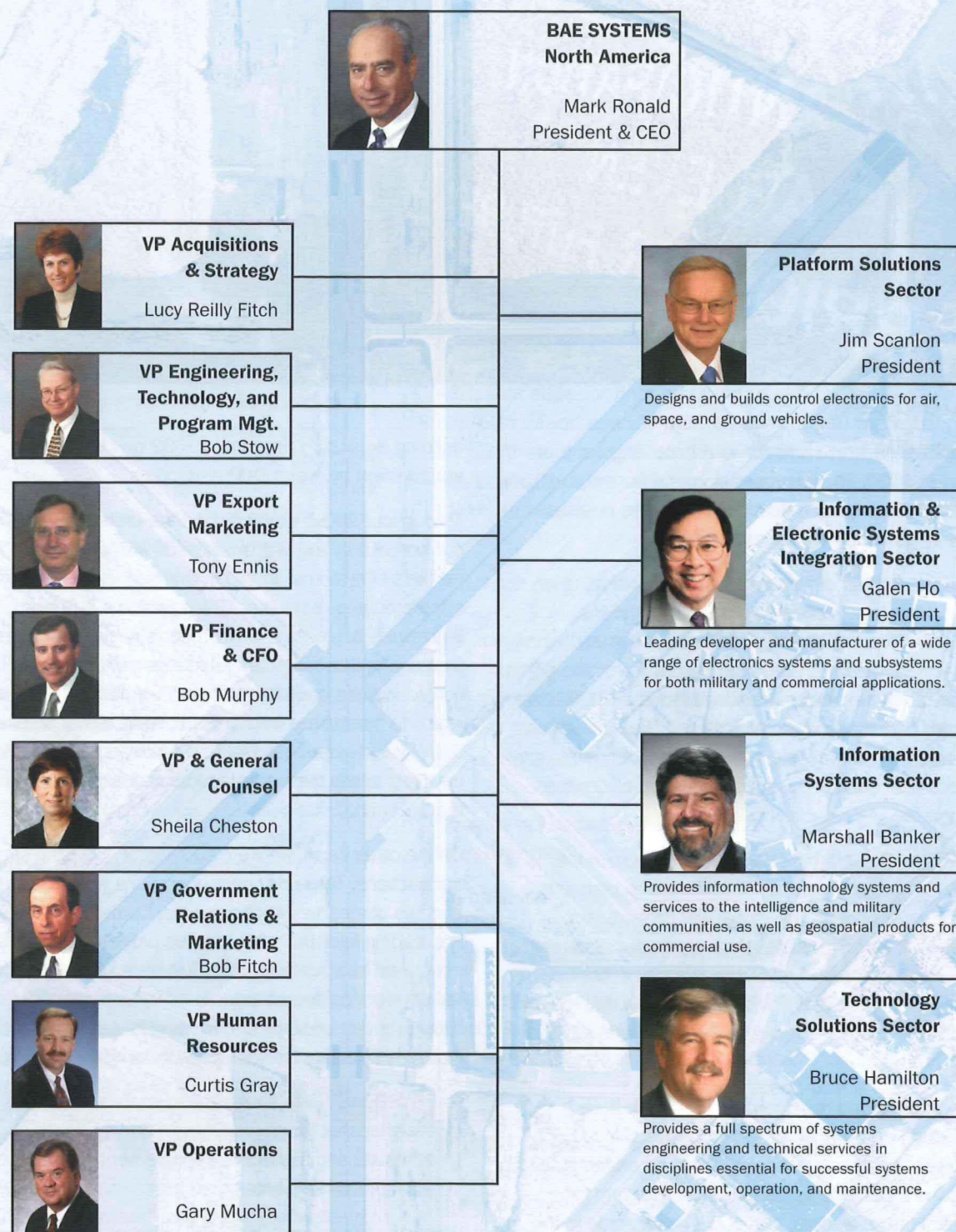
On the other hand, we were successful in closing smaller transactions. Three non-core operations were divested and two companies were acquired. Corbett Technologies is a leading Information Assurance provider and has been integrated into our Enterprise Systems unit in McLean, Va. Condor Pacific Industries is a maker of inertial measurement systems and is being integrated into the Platform Solutions Sector, based in Johnson City, N.Y.

BAE SYSTEMS North America also scored well in the recent snapshot Employee Opinion Survey, which showed great results and significant improvement over last year in several important areas.

We are confident that 2003 will equal or surpass our 2002 growth. Our priorities and goals for 2003, as stated herein, are challenging but attainable and we will meet our commitments to the corporation.

*Mark Ronald*

## Management Team Chart



## Management Visions



"We are challenging ourselves to grow at 10-plus percent in orders year-to-year. 2003 marks the beginning of our sector's transformational journey to becoming a preferred C4ISR subsystem provider in the aerospace industry."

Galen Ho  
President, Information & Electronic Systems Integration Sector



"Pursuing and managing growth are the main priorities for the year ahead at the Platform Solutions Sector. We will continue to support North America's objective of 15 percent growth through acquisitions and are committed to finding a significant role on DoD's transformational initiatives such as Future Combat Systems."

Jim Scanlon  
President, Platform Solutions Sector



"At the end of 2003, the most important thing I will be able to say that my sector accomplished was putting in place a sector management team which will grow the business over the next five to 10 years."

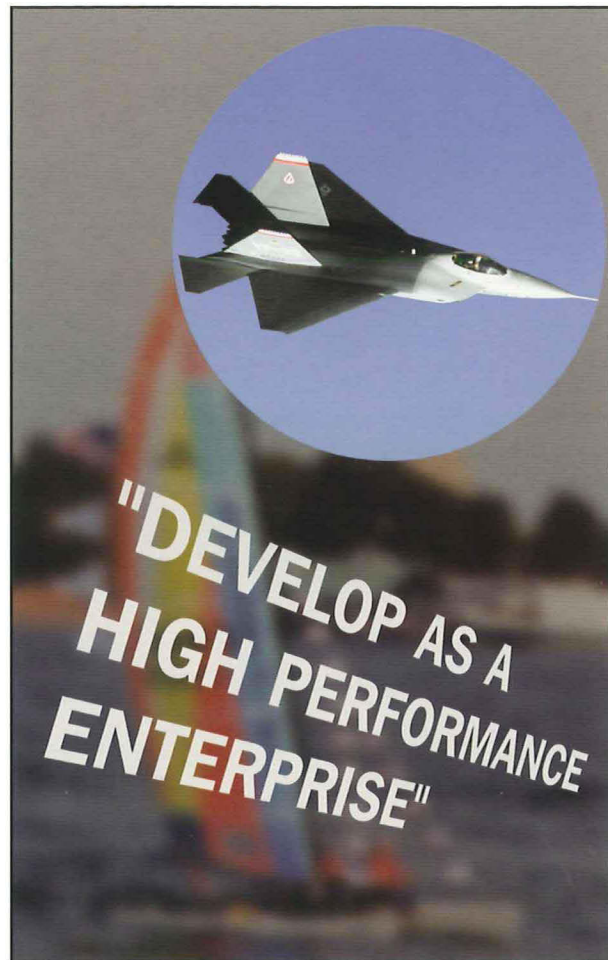
Bruce Hamilton  
President, Technology Solutions Sector



"This year is a pivotal year for the Information Systems Sector. We hope to win a major enterprise modernization program for our Intelligence customer. In addition, we will be increasing our emphasis on the DoD market by pursuing transformational C4ISR programs in Battle Management and Command and Control."

Marshall Banker  
President, Information Systems Sector

## Reflections on 2002



BAE SYSTEMS North America continued its record of strong performance in 2002 by meeting or exceeding all salient financial and performance targets across all business sectors, including the challenging commercial aerospace market.

The business had several significant program wins and successes over the year, which include the Joint Tactical Radio System (JTRS), a U.S. military program to replace a wide range of tactical radios with a potential value of \$4 billion over the life of the program; a series of study and development contracts from Boeing for the U.S. Army's Future Combat Systems (FCS); a U.S. Navy contract for Low Rate Initial Production (LRIP) of the Integrated Defensive Electronic Countermeasures (IDECM) Radio Frequency Countermeasures (RFCM) system; a

contract from Boeing to develop the Integrated Vehicle Management System Computer for the X-45B Unmanned Combat Air Vehicle; and a range of engineering and technical services contracts, particularly for the U.S. Navy.

Additionally, the Carnegie Mellon Software Engineering Institute (SEI) certified two of our U.S. businesses as Capability Maturity Model (CMM) Level 5 (the highest level of software engineering maturity), a distinction achieved by less than 4 percent of all measured companies across the U.S.

As we began shifting our attention away from a major acquisition in the U.S. this past year, we successfully completed the acquisition of two small, but strategic companies. Corbett Technologies, acquired in November, is a leading information technology and information security business that complements our Command, Control, Communications, Computers, Surveillance and Reconnaissance (C4ISR) and Federal IT strategy. Condor Pacific Industries, a leading producer of aerospace sensors and guidance systems, acquired in December, complements our market leading position in aircraft control electronics.

BAE SYSTEMS performed against the following key objectives for 2002:

### Meet or Exceed Our 2002 Business Plan Targets

For 2002, we were able to exceed the business plan targets for order intake, sales, profit, and cash.

### Maintain Our Leadership Positions in Subsystems, Software and Services

We accomplished this objective in 2002 by maintaining strong program performance, continuing to reduce the number of red programs, earning an average of 95 percent of available award fees, and winning all re-competes in the services market. We also invested over \$100 million in internal research and development funds and spent over \$200 million in customer research and development funds to further our leadership positions.

### Gain Positions at the Next Strategic Tier

Early in 2002, we discussed the advent of several major programs that would serve as cornerstones in DoD's Transformation initiative. In late 2001, we were selected to provide the Electronic Warfare Suite and Vehicle Management Systems on the F-35 Joint Strike Fighter. Other major wins on important contracts included the Joint Tactical Radio System as part of the Boeing team, down-select for the Warfighter Information Network - Tactical (WIN-T) program on the General Dynamics team, and roles on the U.S. Army's Future Combat Systems (FCS). At the same time, we have leveraged our global strength and resources by collaborating with our UK counterparts on the Future Combat Systems and supported BAE SYSTEMS' successful bid for the Future Carrier (CVF).

We've made considerable progress in the establishment and relocation of the Integrated Systems business in Reston, Va., which was newly created in 2001. Integrated Systems provides state-of-the-art information systems and services for the intelligence community and Department of Defense with specific focus on C4ISR, imagery, and geospatial integrated systems.

### Operate as a High Performance Enterprise

While targeting new business opportunities, we continued to focus on initiatives to develop as a high performance enterprise. Several key initiatives pursued throughout the year resulted in marked successes. CNIR in Wayne, N.J., and Mission Solutions in San Diego, Calif., achieved the highest Software Capability Maturity Model rating - Level 5. Our Commodity Management initiative achieved \$23 million in cost savings during 2002 and implementation of the "Program Management Developing You" curriculum underscored our commitment to the development and professionalism of Program Management. Furthering the organizational development effort, nearly 400 managers were enrolled in the Performance Centered Leadership Program during 2002, bringing North America's PCL population to 550.

*"We have a proud record of adhering to the highest business and ethical standards. We are committed to maintaining those standards; it is the right thing to do and it is essential to our company."*

*Sheila Cheston  
Vice President & General Counsel*



# Organizing for Opportunity and Growth

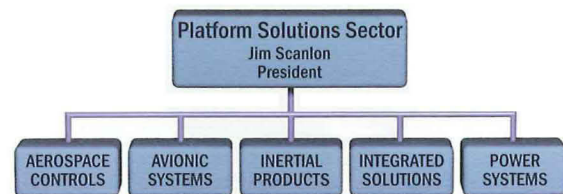
## Platform Solutions Sector

In January 2003, Jim Scanlon, president of the Platform Solutions Sector, announced the expansion of its newly created Inertial Products business, the business formed in December with the acquisition of Condor Pacific Industries. BAE SYSTEMS' Inertial Systems Division in Plymouth, UK, formerly part of the UK-based Avionics Group, has also become part of Inertial Products. In addition, the inertial business that formerly reported to BAE SYSTEMS Communication, Navigation, and Identification (CNI) in Wayne, N.J., has become part of Inertial Products.

Inertial Products employs some 1,450 people – about 600 in Plymouth, 600 at the former Condor Pacific sites, and 250 in New Jersey – and comprises an impressive range of complementary capabilities in navigation guidance systems.

This combination of our UK and U.S. entities will enhance the Platform Solutions Sector's capabilities and customer relationships in both military and civil markets while retaining a European, North American, and Far Eastern footprint from which to expand global presence.

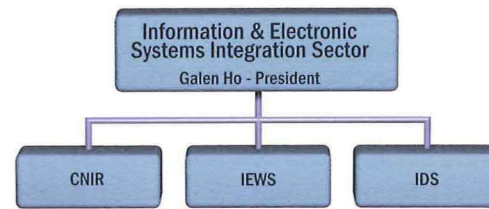
Additionally, Platform Solutions announced the formation of a Power Systems business unit that combines the former Engine Controls and Power & Drive Systems businesses.



## Information & Electronic Systems Integration Sector

In January 2003, Galen Ho, president of Information and Electronic Systems Integration Sector, announced the adoption of a Market Driven Organizational framework to help the sector more thoroughly understand customer needs, anticipate market changes and market priorities, and proactively pursue objective C4ISR market targets.

This announcement also defined a number of organizational changes designed to help the IESI



Sector continue to grow by addressing C4ISR opportunities in 2003 and focusing on its organic C4ISR subsystems long-term strategy, and to enable the sector to concentrate on developing key relationships with the Information Systems Sector (ISS) as well as the UK-based C4ISR business.

At the sector level, IESI initiated a robust and centralized Business Development function. This function focuses on cross-business capabilities, strategic new business capture, and business development strategies that extend beyond current businesses – including relationships outside the sector and North America.

In addition, the sector has reoriented the product elements to align better with strategic objectives and to maximize synergy created through current strategies and strengths. Consequently, the five former business units in the sector have been realigned into three businesses:

### Communication, Navigation, Identification and Reconnaissance (CNIR)

The biggest restructuring occurred within the newly named Communication, Navigation, Identification and Reconnaissance business unit. CNIR combines Advanced Systems' Greenlawn IFF/Displays/Marine Product businesses, Reconnaissance & Surveillance Systems, and most elements of Communication, Navigation, and Identification (CNI) into a new entity.

### Information and Electronic Warfare Systems (IEWS)

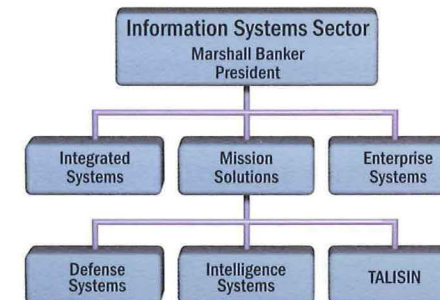
Advanced Systems' Lansdale, Pa., business – electronic attack, electronic surveillance, microwave and antenna programs – has become part of IEWS. The consolidation strengthens Information Warfare leadership and focus. IEWS will also be focused on ways of working across BAE SYSTEMS units – most notably with the Information Systems Sector to create world-class C4ISR subsystems/systems capabilities.

## Integrated Defense Solutions (IDS)

There is no change to the organizational structure of IDS, which has also been given the additional mission of Homeland Defense focal point for the IESI Sector.

## Information Systems Sector

Mission Solutions has performed very well for many years as a supplier of intelligence, defense, and imagery systems. In November 2002, Marshall Banker, who serves concurrently as president of both the Information Systems Sector and the Mission Solutions business unit, announced plans for Mission Solutions to implement a strategy that retains focus on its Intelligence business, but also moves to become a major subsystem/systems provider for new C4ISR opportunities, including transformational C4ISR programs such as the U.S. Air Force's Multisensor Command and Control Constellation (MC2C) program and the U.S. Navy's FORCENET program. These opportunities are both large and of long duration, and therefore can be instrumental in securing future growth of the sector.



Going forward, the role of sector president will include building relationships with senior customers and partners, and focusing on sector strategies, merger and acquisition pursuits, and North America and transatlantic campaigns. Mission Solutions' new business unit president, when appointed, will focus on moving the business from a C4ISR applications provider to a broader based major subsystem supplier.

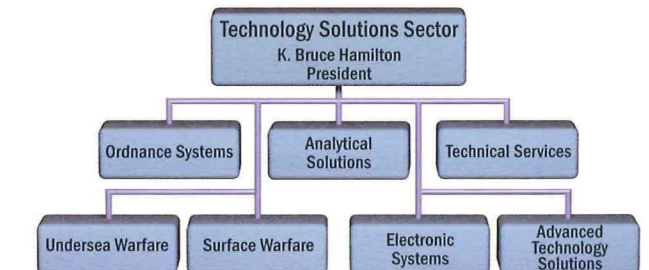
Additionally, Mission Solutions has restructured its organization into three Lines of Business with charters to align with its revised strategic intent. These three newly formed Lines of Business include Defense Systems, Intelligence Systems, and TALISIN.

## Technology Solutions Sector

In late December, there was a restructuring with the addition of a new Undersea Warfare business unit and a new Surface Warfare business unit to better align

the sector with our Naval Systems customers. This new organization allows the Technology Solutions Sector to maintain its position as a major NAVSEA industry partner and to more effectively grow the business.

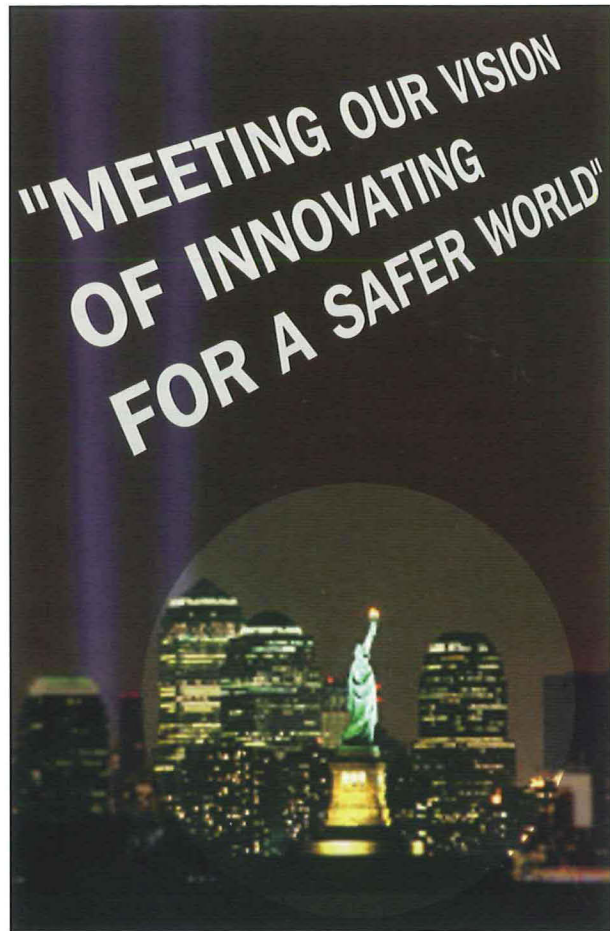
The Surface Warfare business unit, with its emphasis on program management support for shipbuilding programs, is positioned to support a growing shipbuilding and conversion budget, both domestically and internationally. Building on a long legacy of support to Navy submarine programs, the Undersea Warfare business unit is focused on continuing its 40-plus-year support for Fleet Ballistic Missile programs while pursuing opportunities in areas such as submarine conversions and unmanned underwater vehicles. The Electronic Systems business unit is leveraging its reputation as a C4I systems integrator to take advantage of expanding ship construction programs and opportunities to integrate new-generation C4I systems on various military and civilian platforms, both in the U.S. and internationally. The Advanced Technology Solutions business unit is organized to focus on providing high-end information technology support to the growing area of intelligence systems and similarly, to provide systems engineering and technical solutions to our growing FAA business area and Army customers.



The final two segments of the Technology Solutions Sector, Ordnance Systems and Technical Services, are well positioned to achieve growth. Ordnance Systems is realizing growth in the production of explosives to support the War on Terrorism, while Technical Services is focused on the growing market for outsourcing opportunities and supports its long-time Air Force customers at Eglin AFB.

The sector is also focused on making key strategic acquisitions to provide us with new or expanded technology capabilities and to expand into new customer and market segments.

## Keys to Our Growth



BAE SYSTEMS North America has achieved key roles in several programs that are the cornerstones in the transformation of the U.S. military.

### Joint Strike Fighter

BAE SYSTEMS North America met major 2002 milestones in its key Systems Design and Development (SDD) roles for the Joint Strike Fighter. In June, BAE SYSTEMS Platform Solutions delivered its first hardware for the tactical aircraft – the F-35 Vehicle Management Computer (VMC) development processor was the first avionics equipment delivered by any subcontractor as

part of the program's SDD phase. The Platform Solutions-developed VMC is the core for many of the aircraft's flight control functions. In August, the Information and Electronic Warfare Systems (IEWS) business unit passed its critical Systems Requirements Review with high marks; the IEWS unit has overall responsibility for the new fighter's Electronic Warfare system integration.

### Joint Tactical Radio System

BAE SYSTEMS was selected as part of the Boeing team to provide the next-generation Joint Tactical Radio System (JTRS) for the U.S. Army, Air Force, and Marine Corps. Total program value to BAE SYSTEMS, including options, could exceed \$4 billion over the life of the program. JTRS combines several key company capabilities including networked radios, wideband waveforms, and software programmable products. The JTRS Cluster 1 contract awarded in 2002 will deliver more than 100,000 radios for Army ground and aviation platforms, as well as to Air Force and Marine Corps ground vehicular platforms. The systems will support other Army programs, including the Warfighter Information Network – Tactical (WIN-T) and Future Combat Systems (FCS).



*"To provide the credentials and key enablers to become a major subsystem supplier and Prime Integrating Contractor for the Intelligence and Warfighter communities, we will focus our IR&D investments on enterprise architectures and modeling and simulation activities, supplementing our workforce with architects, senior systems engineers, and program managers."*

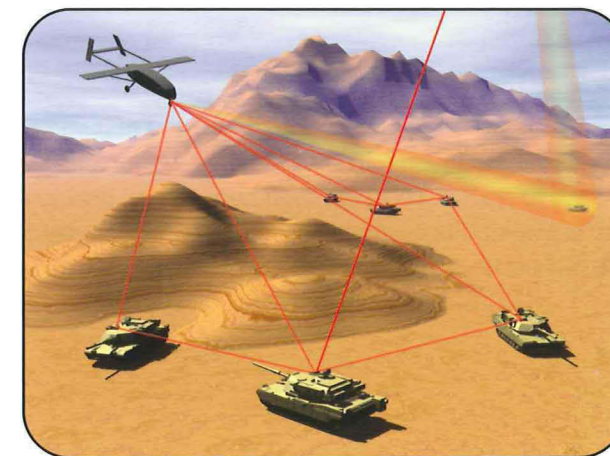
**Marshall Banker**  
President, Information Systems Sector

### Adaptive Joint C4ISR Nodes

The Defense Advanced Research Projects Agency (DARPA) selected Information & Electronic Warfare Systems to lead the demonstration phase of its Adaptive Joint C4ISR Node (AJCN) program. AJCN will provide a scalable, multi-function, multi-mission communications, signals intelligence, and electronic attack payload that can be configured to perform a variety of functions with the same processing hardware. The U.S. Army and Air Force will be the key users of the C4ISR node. BAE SYSTEMS' Joint Tactical Radio System software, developed by Communication, Navigation, Identification and Reconnaissance in Wayne, N.J., is a key part of the demonstration, and several other teammates will also participate. The \$60 million contract will be carried out over the next five years, testing four flyable payloads.

### Future Combat Systems

BAE SYSTEMS was awarded and completed several critical systems and subsystems study contracts as part of the Concept and Technology Development (CTD) phase of the FCS program and is well positioned for success in the System Design and Demonstration (SDD) phase, which is scheduled to begin in 2003. FCS is the cornerstone of the U.S. Army's transformation vision, and will develop network-centric concepts for a multi-mission combat system that will be overwhelmingly lethal, strategically deployable, self-sustaining, and highly survivable in combat through the use of an ensemble of manned and unmanned ground and air platforms.



### Technical Services

In addition to new engineering services and systems integration awards this year, BAE SYSTEMS North America received award fees in excess of 95 percent and won all re-compete contracts in this highly competitive market – benchmark performance by any measure. Foremost among these are contracts to support air traffic control and landing systems for the U.S. Naval Air Warfare Center-Aircraft Division; engineering services for the U.S. Coast Guard Integrated Deepwater System program office; engineering and scientific support services for the U.S. Marine Corps; and a new, strategically important, five-year contract from the U.S. Army in Hawaii to provide maintenance, transportation, supply, and logistics services for organizations attached to the U.S. Army Pacific and the Pacific Basin.

### Software Systems Development

In early 2002, BAE SYSTEMS introduced a commercial real-time operating system for aircraft and other safety-critical applications. CsLEOS™ is a layered, embedded system certified to the highest industry reliability standards, which draws from decades of experience in design and production of aircraft flight controls. CsLEOS™ is a commercial, off-the-shelf system that employs brick-wall time and space partitioning to operate multiple systems independently of each other, such that if one system experiences a failure, the others are unaffected. The Boeing Company selected CsLEOS™ for a major upgrade to the flight controls on the U.S. Air Force C-17 Globemaster III transport.



**Joint Chemical Agent Detector**

Recent history has provided us with significant evidence that the need for chemical detection has never been more indispensable to our homeland security. In late 2002, BAE SYSTEMS delivered the first JCAD ChemSentry™ chemical detector systems to the U.S. military. JCAD ChemSentry™ is a point chemical detector that can be hand-held or networked for chemical detection virtually anywhere the requirement exists. JCAD ChemSentry™ detects harmful chemical warfare vapors at concentrations that enable users to rapidly take protective action and avoid harmful agent effects, and is equally suitable for both military and homeland security. JCAD ChemSentry™ is the commercial version of the U.S. military's Joint Chemical Agent Detector (JCAD). The U.S. Department of Defense has identified a requirement for 270,000 JCAD systems.



*"IESI has adopted a market-driven organization framework – a construct that helps us more thoroughly understand customer needs, anticipate market changes and priorities while strongly focusing us on customer systems solutions. The new organization structure streamlines business units and aligns them for greater teamwork. A new, centralized strategic business opportunity function at the sector level will aggressively pursue significant programs and begin to fill in the 'white space' between existing businesses and capabilities. With these actions, we can be – we will be – an even more effective and competitive sector."*

**Galen Ho**  
President, Information & Electronic Systems Integration Sector

**Achievements in 2002**

**2002 Snapshot Employee Opinion Survey**

In September 2002, a Snapshot Employee Opinion Survey was conducted throughout BAE SYSTEMS to gain a representative view of employees to monitor shifts in attitude and measure improvements in target areas of strategic thinking, communicating goals and objectives, and addressing poor performance. Nearly 3,000 randomly selected North America employees completed the survey.

On the 33 "core tracking questions" that were repeated from the 2001 employee survey, BAE SYSTEMS North America scores improved on 27 questions. Scores on two questions declined. The most favorable responses largely reflected our focus on meeting customer needs and customer satisfaction.

Most Favorable Responses		
Question	Favorable	Unfavorable
I understand who my customers are.	95%	1%
I am aware of BAE SYSTEMS' policies on both equal opportunity and respect at work.	91%	3%
In my team we provide a consistently high quality service to customers.	90%	2%
I understand how my job contributes to achieving the business plan.	88%	4%
In my team we take a proactive approach to meeting customer requirements.	87%	3%

This year's results also included benchmark comparisons to other U.S.-based manufacturers and aerospace firms tracked by the research firm that conducted and tabulated the survey.

In addition to the core questions, 12 questions specific to BAE SYSTEMS North America were included and tracked from the 2001 survey. Of these, favorable responses increased in the areas of community involvement, communication of business goals and objectives, and business ethics.

Most Improved Responses		
Question	Favorable	Improvement
BAE SYSTEMS actively supports our communities through employee involvement & charitable contributions.	84%	+35%
My immediate manager/team leader clearly communicates business goals and objectives with employees.	65%	+22%
My immediate manager/team leader conducts business in a fair and ethical manner.	81%	+20%
I am satisfied with the services I get from my medical plan carrier.	61%	+13%
I understand how my job contributes to achieving the business plan.	88%	+11%

There were declines in employee perception of how the company addresses poor employee performance and awareness of events occurring throughout the global enterprise. Nonetheless, the majority of employees responded favorably to all but one related question.

Least Favorable Responses		
Question	Favorable	Unfavorable
Poor employee performance issues are addressed effectively where I work.	38%	30%
I am satisfied with the recognition I receive for doing a good job.	54%	24%
At least once a month my immediate manager/team leader ensures I am informed of what the company is doing.	57%	24%
My immediate manager/team leader lets me know how I am doing on an ongoing basis.	57%	22%
I think it is safe to speak up and challenge the way things are done in this company.	55%	21%

During 2003, we will be focusing on making improvements in these five areas. In 2004, we will conduct a full survey of all employees to measure our progress.

**Growth From Within**

During 2002, BAE SYSTEMS invested over \$200 million in new facilities and major renovations. These investments provide modern, high-technology facilities for growth while at the same time increasing efficiency and consolidating activities and locations.

*(Continued on Page 18)*



**BAE SYSTEMS NORTH AMERICA**  
No. of employees = 22,000

10-49 ■	500-999 ▼
50-99 ▲	>1000 ★
100-499 ■	North America ●
	Headquarters ●

- Platform Solutions Sector**
  - Aerospace Controls
  - Avionic Systems
  - Integrated Solutions
  - Inertial Products
  - Power Systems
- Information & Electronic Systems Integration Sector**
  - Communication, Navigation, Identification and Reconnaissance
  - Information & Electronic Warfare Systems
  - Integrated Defense Solutions
- Information Systems Sector**
  - Enterprise Systems
  - Integrated Systems
  - Mission Solutions
- Technology Solutions Sector**
  - Advanced Technology Solutions
  - Analytical Solutions
  - Electronic Systems
  - Ordnance Systems
  - Surface Warfare
  - Technical Services
  - Undersea Warfare

The former Reconnaissance and Surveillance Systems and Advanced Systems now share a campus in Greenlawn, N.Y., where 1,000 employees occupy



Employees, business leaders, and local elected officials participate in opening ceremonies at the company's newly expanded campus in Greenlawn, N.Y.

modern facilities. In July, Mission Solutions in San Diego, Calif., cut the ribbon on its new six-story business complex, and in September, dedicated the newly renovated Building 62 to Bob Penninger, a San Diego-based employee killed on Sept. 11, 2001. This



Mrs. Robert Penninger joined Marshall Banker at the dedication of Building 62 in September 2002.

fall in a similar tribute, the new Electronic Systems building in Southern Maryland was dedicated in memory of Jerry Moran, also killed on Sept. 11.



The Jerry Moran Facility located in Southern Maryland was dedicated in a ceremony held in September 2002.

In October, Virginia Governor Mark Warner congratulated BAE SYSTEMS North America during the opening of Integrated Systems' new building in Reston, Va.,. Several hundred employees of the Platform Solutions Sector based in Santa Monica, Calif., will also be relocating to a new, modern office building in April.



Virginia Governor Mark Warner joins Mark Ronald at the ribbon cutting ceremony for the new Integrated Systems building in Reston, Va.

### Community Involvement

Employees as well as our neighbors are starting to see the difference BAE SYSTEMS makes in their communities. In the 2002 Employee Opinion Survey, 84 percent of employees strongly agreed that BAE SYSTEMS actively supports our communities through employee involvement and charitable contributions. BAE SYSTEMS is making its mark and leaving its charitable footprint all over the nation.

### USO World Sponsor

In 2000, BAE SYSTEMS signed on as one of only five World Partners with the United Service Organizations (USO). In 2001, following the terrorist attacks on the World Trade Center and the Pentagon, the company pledged an additional \$1 million in memory of Chuck Jones, Bob Penninger and Jerry Moran, our colleagues who lost their lives on September 11. The company continued that support in 2002 with grant money that supports the men and women in the armed forces who are deployed throughout the world.

### Charity Challenge

This year's Charity Challenge campaign is changing the lives of people all across the globe. As in past years, employees are raising money and sacrificing their time, with a specific focus on the Make-A-Wish Foundation – the selected charity for this campaign. On track for raising at least \$300,000 this year, overall contributions to the Make-A-Wish Foundation during the 18-month campaign are expected to be at



A check for \$1,800 is presented to the Make-A-Wish Foundation by the BAE SYSTEMS Team following the Marine Corps Marathon.

least \$500,000. The Make-A-Wish Foundation grants the wishes of children with life-threatening illnesses to enrich the human experience with hope, strength, and joy.

### Special Olympics

In May 2002, nearly 1,200 athletes, 400 coaches and 2,000 volunteers joined together at the University of Maryland to launch the 2002 Maryland Special Olympics games. BAE SYSTEMS was a proud sponsor of the three-day competition which offered a variety of Olympic-type sports. The Olympic games give these individuals an opportunity to develop physical fitness, demonstrate courage, experience joy and participate in a sharing of gifts, skills and friendship with their families, other Special Olympics athletes, and the community.



Bob Hastings, BAE SYSTEMS North America VP Public Affairs & Communications, accepts the sponsorship award for BAE SYSTEMS' support of the Maryland Special Olympics.

### Juvenile Diabetes Research Foundation (JDRF)

JDRF is the only major diabetes organization focused exclusively on research, and is the number one nonprofit, nongovernmental funder of diabetes research worldwide. In 2002, 700 BAE SYSTEMS employees and family members participated in the



Employees gathered at the base of the Washington Monument for the Juvenile Diabetes Research Foundation Walk to Cure Diabetes.

annual "Walk to Cure Diabetes" fundraiser in New Hampshire, Washington, DC and San Diego, raising a total of \$132,740 to help find a cure.

### March of Dimes

BAE SYSTEMS is a proud supporter of the March of Dimes, whose mission is to improve the health of babies by preventing birth defects and infant mortality. Employees at the Mission Solutions facility in San Diego and CNIR in Wayne, N.J., are among the company's largest contributors. Mission Solutions employees raised \$28,000 and CNIR employees have raised \$20,000. For the last three years, the Wayne site has received the Crystal Award – the highest recognition given by the March of Dimes for volunteerism. Over the last eight years, CNIR employees have donated \$105,000 to the cause.

### FIRST Competition

As in years past, BAE SYSTEMS will again sponsor local students in an innovative competition called FIRST – For Inspiration and Recognition of Science & Technology. In Lansdale, Pa., Nashua, N.H., Silver Spring, Md., California, Md., Bayshore, N.Y., Austin, Texas, Westlake Village, Calif., and Wayne, N.J., employees helped mentor students competing in a large-scale engineering tournament staged on regional and national levels. Teams take on the challenging task of designing and building an original robot to compete against robots from other teams across the country. The FIRST competition is an example of BAE SYSTEMS' Innovation and Technology value – we're encouraging a hunger for new ideas and new technology in students who will become the future workforce of America.

**Recognition**

**Chairman's Award for Innovation**

BAE SYSTEMS believes in honoring innovation and paying tribute to employees who contribute to the company's mission to secure a sustained competitive advantage in its marketplace. The Chairman's Award for Innovation (CAI) program encourages employees

to realize their full potential and then awards those individuals for the depth and impact of their innovations. This year the program broke all previous nomination records with 750 nominations coming in from across North American businesses. North Americans won three Gold Awards and shared in a fourth award during the CAI ceremony held in Washington, DC.



*Leveraging off-the-shelf technology, this team from IEWS developed a dual-channel, configurable prototype digital receiver that saved its largest customer more than \$500 million over the production life cycle of F-22 procurements.*

*(Clockwise from bottom left) Herb Archer (Nominator) and team members Paul Romsky, Rich Tallarico, Jerry Abdinoor, Ryan Walsh, Richard McCoy, and Doug Spencer join Chairman Sir Richard Evans (second from left, front). Not pictured: Greg Laste*

*This Advanced Systems team developed a ¼-sized anti-jamming antenna for military platforms, opening the door to key segments of the billion-dollar anti-jam market.*

*(Left to right) Ed Newman (Nominator) and team members Al Lopez and Ray Lackey join Sir Richard Evans*



*This team from Applied Technologies improved the performance and morale of 280 children in a local Washington, D.C., elementary school by soliciting and donating holiday gifts, equipment, tuition and lots of spare time.*

*(Clockwise from bottom left) Team members Debbie Moon, Jeanne Black, Terry Coluzzi, Niya Vollin, Ed Nance, Phil Delgado, Judy Gaardsmoe (Nominator) and Terri Ray join Sir Richard Evans (front row center). Not pictured: Steve Sgouros and Lisa Pichette*

*This team, comprised of employees from North America, Avionics and AMS, enabled best practice of "high-maturity" software processes to flow across BAE SYSTEMS and our joint venture partners on both sides of the Atlantic.*

*(Clockwise from bottom left) Phil Thompson (AMS), Kelly Gunning (Mission Solutions), Dez Cass (Avionics), Randy Varga (CNIR), Joel Ange (CNIR), Bill Maddox (Mission Solutions), Peter Howard (CNIR), and Sir Richard Evans. Not pictured: Paul McCormack (Avionics), Dave Loydall (AMS), Mandy Savage (Avionics)*



**Collier Award**

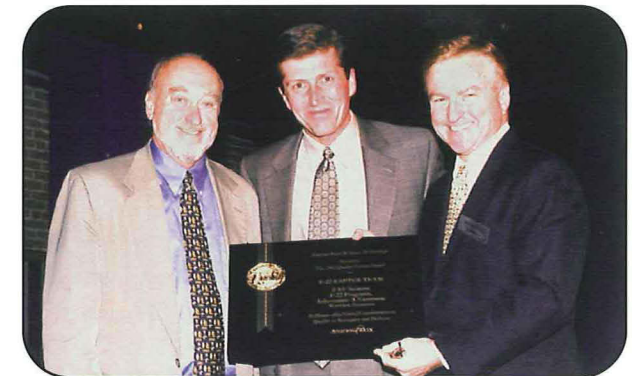
BAE SYSTEMS was recognized by the National Aeronautic Association as one of the greatest achievers in aeronautics in this country for its work on the Integrated LiftFan Propulsion System (ILFPS) on the X-35 Joint Strike Fighter. Achieving excellence through teamwork, the company shared this honor with Pratt & Whitney, Rolls Royce, Lockheed Martin and Northrop Grumman, all team members on this prestigious and worthwhile accomplishment. This propulsion system is what powers the JSF's short takeoff and vertical landing variant, a significant breakthrough for the fixed wing aircraft, allowing it to move vertically in takeoff and landing modes.



*(Left to right) Paul Bloxham, Robert Burton, and Martin Taylor of the BAE SYSTEMS JSF Project Team join Mark Ronald, BAE SYSTEMS North America President and CEO, in receiving the Collier Award.*

**Aviation Week Quality Center Award**

Don Donovan, BAE SYSTEMS F/A-22/JSF Vice President and General Manager, accepted Aviation Week's Quality Center Award at the Aerospace Awards Expo in Los Angeles, Calif. BAE SYSTEMS Information & Electronic Warfare Systems business unit, Nashua, N.H., was one of seven F/A-22 program team members to receive the award that annually singles out the best quality practice in the military and civil aerospace industry.



*Aviation Week's Quality Center Award is presented to Don Donovan by David M. North (left), Editor in Chief of Aviation Week & Space Technology magazine, and Kenneth Gazzola (right), Executive Vice President/Publisher, Aviation Week Group.*

**Channel 10 Leaders for San Diego Award**

KGTV Channel 10, a local San Diego television affiliate, awarded BAE SYSTEMS Mission Solutions the "Channel 10 Leaders for San Diego" award for its work as a large business that contributed the most to the San Diego community. Channel 10 representatives honored the San Diego employees for the energy and enthusiasm displayed in the year's Charity Challenge program, and the drive they had to help those in need.



*Mission Solutions employees in San Diego proudly accept the local "Channel 10 Leaders for San Diego" award for their part in helping the local community.*

## Securing Our Future

CAREERS IN THE COMPANY OF GREAT MINDS

# Innovation

It only takes one brilliant idea to revolutionize an entire industry.

Revolutionize your career at BAE SYSTEMS. We are a company of innovators. Of thinkers, doers and problem solvers. Acting, new people and ideas to the table is essential to our success — and to our innovative solutions.

We are a global leader in systems, defense and aerospace because we believe in challenging ourselves, never resting on the status quo. The unique talents, knowledge and experience of every one of our employees contribute to new thinking and new applications of technology.

BAE SYSTEMS North America now employs a diverse workforce of more than 22,000 people across 30 states. We're looking for others who are ready for the challenge, and more importantly, are committed to searching for that one brilliant idea that changes everything. EOE, M/F/D/V. BAE SYSTEMS. Innovating for a Safer World.

**BAE SYSTEMS**

www.baesystems.com/careers

Our growth is predicated on a reliable and productive workforce. As we continue to strengthen our ability to support a diversity of customers with responsive and innovative solutions, we must continue to grow with individuals that possess the originality and determination of our current workforce.

Ads seen in:  
 Aviation Week & Space Technology  
 IEEE Spectrum  
 National Society of Black Engineers  
 Society of Hispanic Professional Engineers  
 Society of Women Engineers  
 Washington Post

**"People choose work in the aerospace industry because they believe they are taking care of the men and women in the armed forces who take care of us, and I see that solidly here at BAE SYSTEMS. Our company does a good job of living out its vision of "Innovating for a Safer World"; people here believe that and so the defense and aerospace industry is very attractive to them."**

**Curtis Gray**  
 Vice President, Human Resources

CAREERS IN THE COMPANY OF GREAT MINDS

# Inspiration

is everywhere.

Inspired people work for BAE SYSTEMS. Their innovation is our competitive edge. And to keep it that way, we make important contributions to the communities in which we live and work, investing in new technology, education and skills training. It is the best way to preserve our natural intellectual resources — and inspire innovative solutions for years to come.

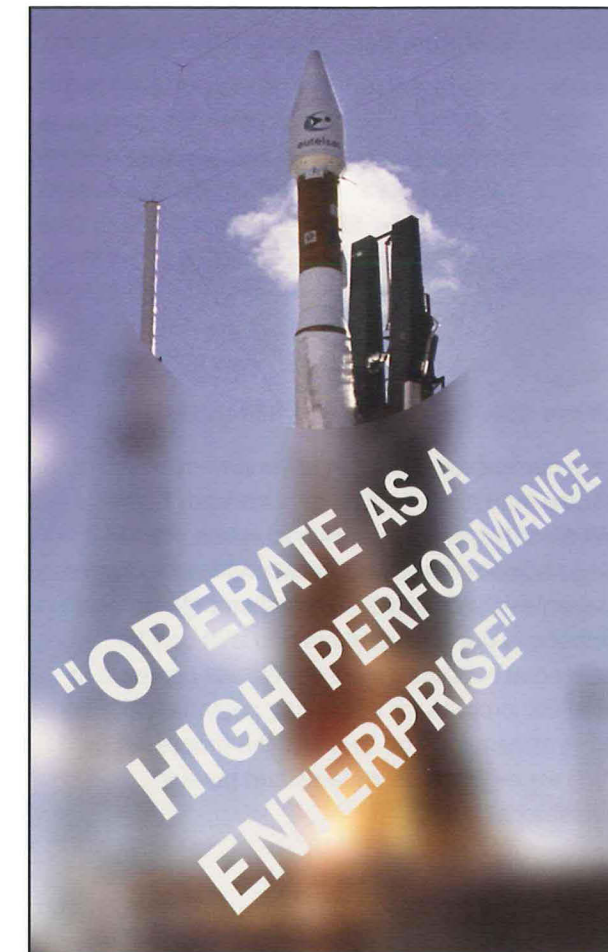
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**BAE SYSTEMS**

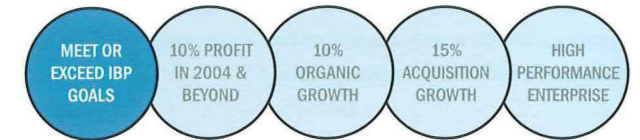
www.baesystems.com/careers

## Priorities for 2003



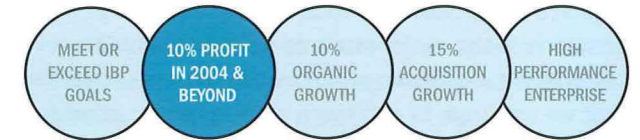
BAE SYSTEMS is the largest supplier of subsystems for the Lockheed Martin Atlas V rocket.

We have established the following goals and priorities for 2003:



### Meet or Exceed Our 2003 Business Plan Goals

Achieving our 2003 business plan goals, including growing our order book, maintaining our profitability, and delivering cash, is our commitment to the corporation. At the same time, we will focus on complying with the Operational Framework, modeling the Vision and Values, and embodying the Performance Centered Leadership Behaviors.



### Put Plans in Place to Assure Aggregate 10% Profit in 2004 and Beyond

While recognizing that different core businesses will produce different levels of profitability, our goal is to provide 10 percent bottom line return on sales across North America. One key element to achieving success is eliminating duplication of effort and leveraging our capabilities and resources across businesses. We must also continue to shape our portfolio in ways that support profitable growth, and ensure that our initiatives such as Commodity Management and Capability Maturity Model Integrated improve efficiencies, reduce operating costs, and contribute to the bottom line.

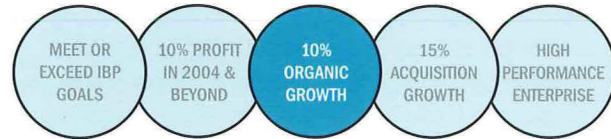


**"In 2003, we will strive to achieve 15 percent growth through acquisitions by streamlining the merger and acquisition pursuit and execution process and prioritizing our list of candidates."**

**Lucy Fitch**  
 Vice President, Acquisitions & Strategy

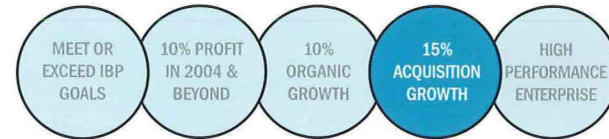
*"Coming off of a very strong 2002 financial performance, North America needs to be more focused than ever on achieving program deliveries, meeting or exceeding customer expectations, and developing the world class processes our markets demand. This high level of performance extends to winning new business to both strengthen positions in our core markets and capture strategic positions in new markets that will generate 10 percent organic growth in 2003. North America is driving to generate additional profitable growth by adding 15 percent top line growth through acquisition. This bright picture can only be achieved by the drive, energy, and enthusiasm our people exhibit on a daily basis to deliver on commitments, resulting in strong, consistent bottom line profit and cash generation that fuels the North America growth engine."*

**Bob Murphy**  
Vice President, Finance & CFO



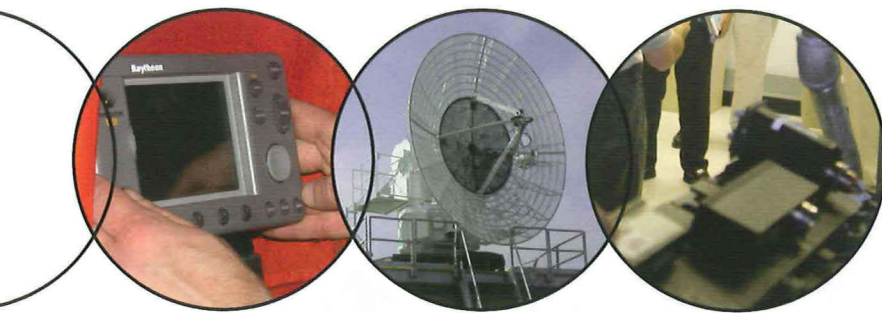
**Expand Our Leadership Positions to Achieve 10% Organic Growth**

BAE SYSTEMS North America enjoys leadership positions in the major markets we serve, including subsystems, software, and services. It is essential that we continue to achieve a high level of customer satisfaction that will enable us to expand our positions in these core markets. At the same time, we must capitalize on our strategic investments in internal research and development and focus our attention on new, larger bid opportunities by leveraging the combined capabilities and resources of both North America and the global enterprise.



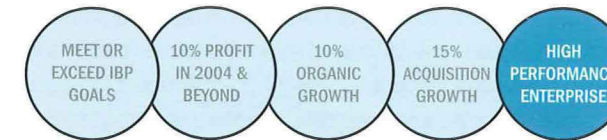
**Achieve 15% Growth Through Acquisition**

In the current stock market environment, much of the defense industry is trading at historically high multiples. This has caused us to revise our acquisition strategy to focus on small-to-medium size companies that complement and strengthen our positions in our core markets and that can be acquired at reasonable prices. We will continue to refine our process for identifying potential candidates and to streamline and expedite the processes by which we evaluate candidates and pursue acquisitions.



*"The North America Export Team seeks to leverage the global reach of BAE SYSTEMS to develop new market opportunities and increase North America exports. In 2003, the Team will focus on facilitating company-wide marketing efforts on key international platforms and programs and furthering relationships with U.S. and international agencies associated with exports."*

**Tony Ennis**  
Vice President, Export Marketing

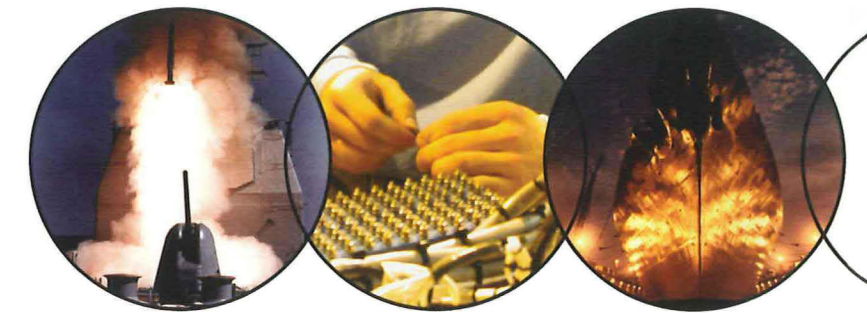


**Operate as a High Performance Enterprise**

We will continue to expand the key process initiatives that enable us to develop as a business, operate more effectively, and contribute to the bottom line. These initiatives include the Virtual Office Environment, Commodity Management and eProcurement, Capability Maturity Model Integrated, and Program Management training. In addition, the North America Performance Centered Leadership Program will be expanded further to include nearly 900 participants in 2003.

*"For 2003, the Engineering function will build on the successes of 2002 by focusing on the business benefits achievable through enhancing the process and resource capabilities of our North America businesses in the areas of engineering and program management."*

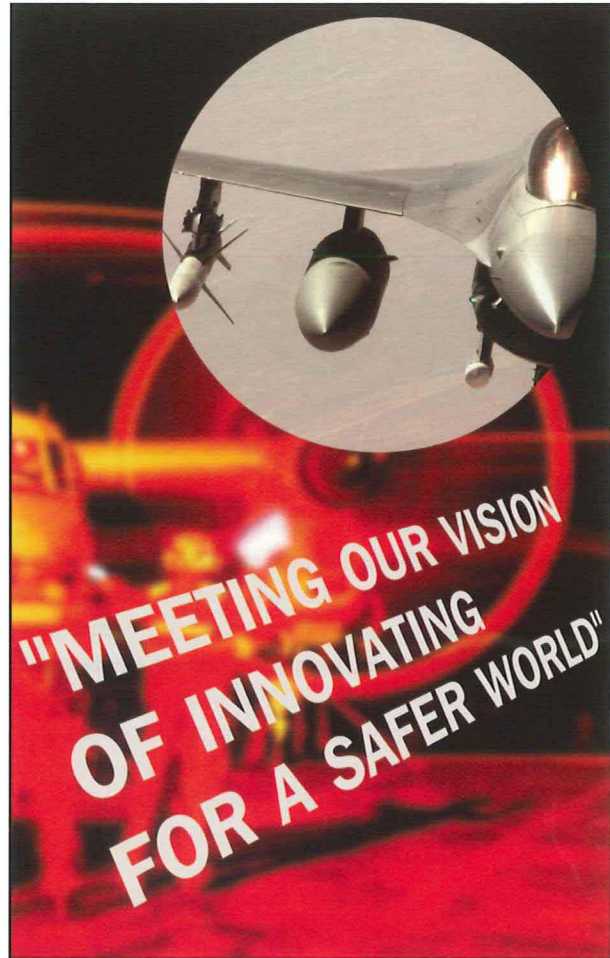
**Bob Stow**  
Vice President, Engineering, Technology, and Program Management



*"Our first task is to effectively assimilate the new Inertial Products business, which we created by combining the recently acquired Condor Pacific Industries and two BAE SYSTEMS businesses. Our operational focus is on flawless program execution, as it is a key ingredient to organic growth and a major factor in winning new business with our current customers."*

**Jim Scanlon**  
President, Platform Solutions Sector

## Initiatives



### BAE SYSTEMS North America Business Model

The BAE SYSTEMS North America Business Model combines a lean headquarters operation with a reliance on the business units to work together to drive operational effectiveness and efficiency. There are three bodies that are used at BAE SYSTEMS North America to foster working together.

**Councils** recommend, drive, and coordinate the implementation of enterprise-wide initiatives, including the 2003 initiatives that follow. Councils

are comprised predominantly of business unit members and led by central staff. The goal of the Councils is to collectively add business value beyond their local business unit to the entire enterprise. Each Council has objectives that support the overall objectives of North America.

**Working Groups** are sponsored by Councils, as required, to deliver specific enterprise objectives.

**Forums** are functional groups that meet to discuss function-specific topics and share best practices.

All three types of teams focus on improving enterprise performance and mitigating risk by challenging current practice, promulgating best practices, and managing change across BAE SYSTEMS and its partners. While these groups coordinate and lead the activity, it remains the responsibility of the business units to implement these initiatives.

### Business Opportunity Process

To effectively pursue and succeed on larger business opportunities, the business units of BAE SYSTEMS North America must be afforded the opportunity to work together and to apply company-wide resources. During the past year, BAE SYSTEMS North America took the first steps in implementing a business opportunity process to ensure that the company identifies, assesses, and prioritizes new business opportunities that cut across multiple business units throughout the company.

Over the past few months we have been fine-tuning a process that we will carry forward. The Business Development Council (BDC) has reviewed the process and assessed a number of key opportunities that warrant further review. Programs have been prioritized and individuals have been assigned as North America "leads."

*"We have implemented the new Business Opportunity Process to ensure the company takes the necessary steps to identify, assess, and prioritize new business opportunities that cut across multiple business units throughout the company. By working together and applying company-wide resources, we will pursue and succeed on larger business opportunities."*

**Bob Fitch**

*Vice President, Government Relations & Marketing*

The new process is designed to provide the business unit with the responsibility to pursue an opportunity on behalf of the entire company. Leads will have the authority to work directly with the involved business units to ensure that there is a coordinated effort to interface with the key customers. Through Phases Zero and 1A of the Life Cycle Management process, it is expected that the leads will work in concert with all business units that are interested in a particular opportunity. Should we have agreement to go forward beyond Phase 1A on any program, we will address the appropriate level of resources necessary to be successful.

We are confident that with this innovative approach to applying company-wide resources, we can pursue and succeed on larger business opportunities.

### Performance Centered Leadership (PCL)

The objective of Performance Centered Leadership is to improve business performance by ensuring that all members of the Performance Centered Leadership Program are objectively and effectively measured, developed, and rewarded on the basis of their individual contributions to the business.

Following the 2000 introduction of the Performance Centered Leadership Program, 132 North America leaders were enrolled during 2001, and another 450 North America managers were added to the program during 2002. During 2003, the PCL population will grow to nearly 900 as another 300 managers complete the initial phases of the program.

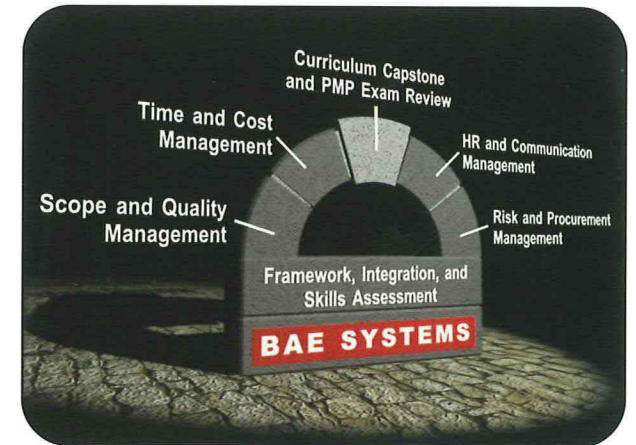
Performance Centered Leadership is based upon five leadership characteristics that are common to effective leaders: Achieving High Performance; Focusing on the Customer; Working Together; Continuously Improving; and Developing Others. PCL participants engage in a personal development program, and performance is also measured against the five leadership competencies through the Performance and

Development Review (PDR) process, a 360 degree review process, and peer reviews.

Performance Centered Leadership creates links between business performance and personal objectives; leadership competencies and behaviors; and outcomes and rewards. It focuses beyond business goals and evaluates the leadership competencies necessary to develop a high performance enterprise and maximize performance of both the North America business and its employees.

### Program Management Developing You (PMDY)

Program Management Developing You (PMDY) became available in 2002 to promote the professionalism of program management personnel within the enterprise. PMDY enables us to consistently manage the development of program managers to meet both their personal expectations and the needs of the business. PMDY provides the basis of a common language and terminology for PM development across the whole of BAE SYSTEMS and promotes the professionalism of PM personnel by increasing their internal and external recognition (potential APM Certification and/or PMI - Program Management Professional).



*"During 2003, Human Resources will focus on developing leaders, building critical capabilities, enabling 'working together' across the organization, and driving a climate of high performance. HR will also be engaged in several important initiatives intended to improve the efficiency of the HR processes. We will continue the implementation of a common Human Resources Information System, which will standardize and simplify certain processes as well as, ultimately, putting more HR processes on employee desktops. In 2003, we will also continue the implementation of the pension strategy, aimed at both protecting retirement benefits and controlling the rising costs of those benefits. HR will also begin an initiative to develop an overall Health & Welfare benefits strategy."*

**Curtis Gray**

*Vice President, Human Resources*

During the year, PMDY addressed the program management knowledge areas of PM processes, integration, context, scope, time, cost, quality, HR, communications, risk and opportunity, and procurement. At the end of 2002, about 25 course modules were completed with a total of about 400 people participating in one or more modules.

**Leadership Development Program**

During 2003, 19 North America employees will complete the 18-month pilot program for the North America Leadership Development Program. The initial two education modules, which were completed during 2002, received high marks from participants in the pilot program. The final three modules are scheduled for completion and delivery by June 2003. Highlights of this year's program will include a visit to several UK-based company facilities, as well as the program graduation scheduled for June.

The objectives of the pilot program include introducing leadership skills, competencies and behaviors to future leaders, increasing employees' knowledge of the transatlantic enterprise, and providing opportunities for employees to experience working in different parts of the company.

In mid-2003, a decision will be made on how the Leadership Development Program will be deployed beyond the pilot phase.

**Virtual Office Environment (VOE)**

As part of BAE SYSTEMS Global Infrastructure Program, BAE SYSTEMS and Computer Sciences Corporation (CSC) have partnered to develop and implement a global Virtual Office Environment (VOE) for BAE SYSTEMS.



The BAE SYSTEMS VOE provides access to people, information, and tools, irrespective of their location. Users can store files, work on files, share files, communicate, collaborate, discuss ideas, share best practices, and access standard tools from wherever VOE is accessed.

VOE within BAE SYSTEMS provides a uniform way to communicate and collaborate, a way to consolidate important team information at a single URL, and a rapid way to start new projects through the use of workspace templates. Employees can also network with Communities of Interest, find subject matter experts from across North America, share expertise, and stay in contact with teams on which they participate.

An initial group of 5,000 users within North America was activated in 2002. Additional users will be activated over time, with a target of 13,000 users by the end of 2003.

*"In 2003, we will apply the CMMI framework to achieve a Level 4 or 5 enterprise maturity in product development and we will continue to apply our competency based program management training initiated last year. Our enterprise approach to these initiatives will leverage our combined capability and innovation. In addition, the engineering function will identify and focus our investment in technology drivers critical to long-term growth opportunities. Leveraging these drivers across North America can become a key differentiator in the marketplace."*

**Bob Stow**

*Vice President, Engineering, Technology, and Program Management*



*CNIR is presented CMM Level 5 certification.*

**Capability Maturity Model (CMM) and Capability Maturity Model Integrated (CMMI)**

BAE SYSTEMS North America met its expectation of becoming "World Class" during 2002 by achieving Software Capability Maturity Model (CMM) Level 5 across 43 percent of the enterprise and Level 4 across an additional 23 percent of the enterprise. When compared to industry averages of 7 percent and

While meeting our software CMM goals, we also adjusted our focus in certain business areas to include capability maturity in program management, software engineering, systems engineering, and hardware engineering. This has produced a marriage between disciplines leading to an integrated model that focuses on improvement activities throughout the enterprise. This Capability Maturity Model Integrated (CMMI) was initiated, as planned, during 2002 with improvement plans established to achieve Level 3 or higher maturity in at least 50 percent of the CMMI process areas. Our objective for 2003 is to achieve a Level 3 or higher maturity in at least two businesses engaged in CMMI.

Many of our defined initiatives support our goal of reaching high maturity levels across the CMMI framework with real business benefit continuing to be the focus of these improvement activities. In 2002, we achieved \$14 million in cost savings through the use of the Fagan Inspection Process across software and systems engineering product development. This is the result of a best practice being implemented across the majority of our businesses. An additional \$11 million in cost savings was achieved from software productivity improvements and implementation of Design to Cost, including the use of Six Sigma. The **Design to Cost initiative** will continue to be a key focus in 2003 with its implementation on major strategic development programs to a set of guidelines established by the North America Design to Cost Working Group.



*Mission Solutions is presented CMM Level 5 certification.*

4 percent for Levels 4 and 5, respectively, it is apparent that our software engineers are among the country's elite. In addition, all areas of our enterprise have met or exceeded their individual 2002 targeted CMM goals and this accomplishment has enhanced systems engineering and program management.





*"For 2003, North America operations, through its council activities, will continue focus on the further deployment of the Virtual Office Environment (VOE) by expanding deployment to a total of approximately 13,000 North America users. This will continue to provide North America's employees a wide variety of collaborative capability at their desktops in 2003 and throughout the coming years. The North America Commodity Management organization will expand its pursuit of enterprise procurement agreements that will further leverage North America's procurement volumes to reduce the costs of direct and indirect products and services for our business units. The E-business activities under the eVolution program of e-auctions, e-connections, and e-collaboration will continue to be deployed. North America will continue, in conjunction with our partners, to leverage our Exostar ownership and the Exostar product offerings to the broad enterprise and our suppliers and customers."*

**Gary Mucha**  
Vice President, Operations

Another focus for 2003 is sharing and adopting best practices in software engineering, systems engineering, design to cost, and program management processes across businesses.

**eProcurement**

The term "eProcurement" refers to the evolution of manual buying activities into a new state of electronic efficiency. Product searches, requests for quotes, negotiations, and order placement can all be done now via the web or direct, electronic connection. More and more, BAE SYSTEMS North America is linking with its suppliers to share information and process transactions. There are several key components to an eProcurement system. The first is the eRFX tool, which is used to access Requests for Quotes, Requests for Information, and Requests for Proposals.

When we need information regarding products, services, or pricing, we can use eRFX to obtain it. The second component is eAuction, which is an electronic negotiation tool. eAuctions allow us to find the best market price for goods and services by creating a competitive environment in which suppliers bid their best prices. Another component, eCatalog, opens the door to the world of on-line shopping. Requesters can log on to the web and view supplier catalogs, search for items, and place orders. The supplier receives

instant notification of the order, and begins processing it immediately.

eProcurement offers many benefits to the company, the foremost being cost savings on the goods and services we purchase. In addition, there is a reduction in cycle time, an increase in efficiency, and resources freed up to work on value added activities. Together, eProcurement benefits add up to a significant competitive advantage for our company.

Currently, our eProcurement tools have been introduced to all of our major procurement sites. 2002 was a rollout phase as we began to embrace and deploy the new culture. Several eRFX events were completed, many eAuctions held, and numerous eCatalog transactions took place. Today, we are aggressively placing these tools with users across the enterprise as well as with our suppliers.

In 2003, our goals are to provide value and tangible benefits through the use of our eProcurement tools. To achieve this, our focus will be on major engagements of eRFX adoption, widespread application of eAuction events, and continued expansion of the use of eCatalogs.

Our vision is to transform our culture so eProcurement becomes "the" process that helps procurement drive improvements for our business. Although eProcurement appears to be focused on technology, it's really a change agent that forces you to look at how organizations work together and what methods they use. It enables the development of lean, efficient processes designed to reduce administrative costs and labor. It allows for the exploration of all areas of spending to



look for cost savings. It drives cultural changes throughout the organization, which yield additional improvements. We will have achieved our final goal when eProcurement helps us attain the level of capability maturity that leads to sustained competitive advantage in the marketplace.

**PeopleSoft Conversion**

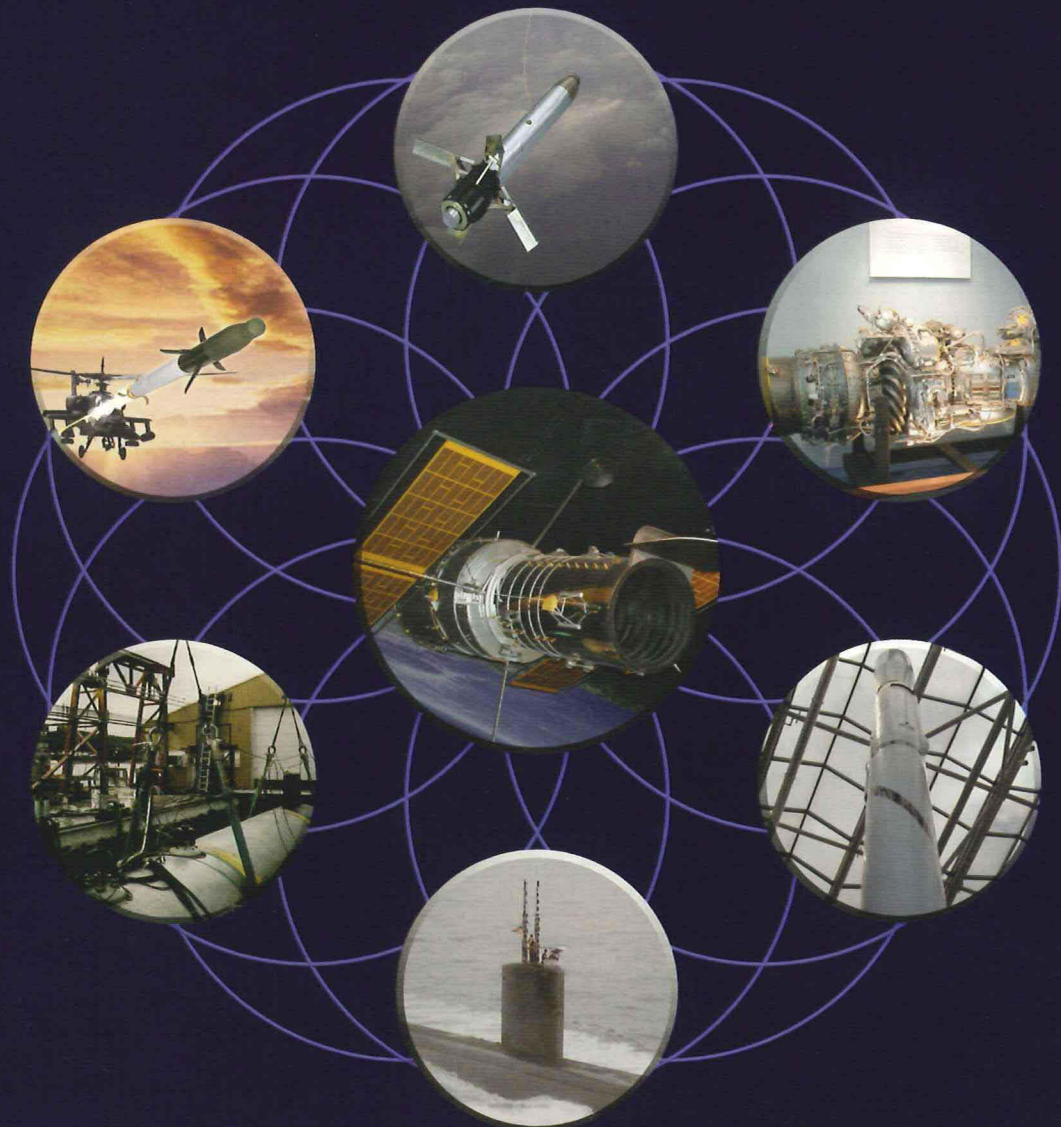
BAE SYSTEMS North America is working toward a September 2003 conversion of its various PeopleSoft systems to a common North America PeopleSoft Version 8 implementation. This version of the human resources software is fully web-based and offers the opportunity to greatly enhance the way in which human resources data and services are delivered. Through familiar web page formats, managers will have desktop access to the data required to complete critical processes on-line. Likewise,

employee access to their own data, as well as the ability to perform certain tasks through on-line self-service, will be made possible.

A working team of finance, human resources, and information technology experts is partnered with CSC to design and implement a North America-wide system flexible enough to meet all of our businesses' needs. By getting to a common database and version of the system, and eliminating large numbers of customizations from previous versions, maintenance cost and processing times can be reduced and future upgrades more easily and economically installed. In addition, PeopleSoft continues to develop on-line applications for key human resources and payroll processes. A common system will allow for more efficient implementation of these e-applications that meet needs and can enhance the services that the company provides to its employees.



The combination of the BAE SYSTEMS management team's commitment to grow the business and the awareness of the direction of the enterprise by our dedicated employees allows us to attain our vision of becoming the leading systems company, innovating for a safer world. As we execute our initiatives and move forward as a world-class enterprise, our past accomplishments form a firm base from which to effectively proceed. As we navigate the hazards of the current economic and geopolitical settings, we will thrive because we have defined and will follow our path to success.



## BAE SYSTEMS



### Our Vision

To be the Leading Systems Company, Innovating for a Safer World

### Our Values

#### Customers

*Our Highest Priority* - We will delight our customers, both internal and external, by understanding and exceeding their needs.

#### People

*Our Greatest Strength* - All our people will be encouraged to realize their full potential as valued members of the team.

#### Performance

*Our Key to Winning* - We will set targets to be the best, continually challenging the way to do things, both as individuals and as members of our teams.

#### Partnering

*Our Future* - We will strive to be the partner of choice and be respected by everyone for our cooperation and openness.

#### Innovation & Technology

*Our Competitive Edge* - We will encourage a hunger for new ideas, new technologies and new ways of working to secure sustained competitive advantage.

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