



To be the benchmark

**BAE SYSTEMS**

[www.rochesteravionicarchives.co.uk](http://www.rochesteravionicarchives.co.uk)



# an exciting future

**BAE SYSTEMS – HOME MARKETS**  
BAE SYSTEMS will be a significant defence and aerospace industry employer in nine countries  
Note: Employee numbers include all Joint Venture employees

**O**n the 19th January 1999 BAe and GEC jointly announced the merger of GEC's defence electronics division, Marconi Electronic Systems (MES), with BAe to form a new company – BAE SYSTEMS.

This document sets out: The rationale for the merger, the strategic intent of the new company, its aspirations from the merger, the organisation that will deliver those aspirations,

the values that we must adopt and the integration architecture that will give us the best possible outcome of this transition from BAe and MES into BAE SYSTEMS.

There's a lot of work to be done, particularly in merging our two companies into a single, seamless organisation. But the opportunities are there for the taking, and with a strong team spirit and a willingness to face the challenges – just imagine what we can achieve together.

The pressure for consolidation within the Aerospace and Defence sectors stems from the following range of market, technology and customer factors:

# rationalale for the merger

## MARKET

In Defence, highest demand will be in systems areas together with a growth in service or service-related areas; traditional platforms will make up proportionally less of the business going forward.

In Commercial aerospace, the market for large aircraft will continue to be cyclical but grow on an averaged basis, whilst for regional aircraft new entrants continue to crowd out the business prospects at a platform level.

## CUSTOMERS

In Defence, major customers are looking to procure at an ever higher level of system integration (ie 'capability' level), and are seeking Prime Contractor/System Integrators large and capable enough, with the necessary financial balance sheet strength, to successfully manage large scale system and service activities on their behalf.

In addition, the focus in technology is changing from a defence specific view to one increasingly looking towards

commercial developments to satisfy military needs; this is most obvious in the areas of information technology and communications but is a growing trend throughout the defence sector.

The merger of BAe and MES, and the consequential changes to the way the new company will work – compared with the past of either company – have the objective of positioning BAE SYSTEMS to meet the challenges inherent in this environment and to position it at the core of the ongoing industry consolidation.

## THE NEW GROUP

BAE SYSTEMS is well positioned to thrive in this new environment:

**BAE SYSTEMS will be the 2nd largest Defence contractor**, the joint 3rd largest Aerospace and Defence company (with EADS) and the 3rd largest Aerospace Electronics company in the World.

It will have a **world class Prime Contracting capability** across leading Defence sectors with the in-depth set of skills and capabilities to manage the most complex of high level systems tasks. MES's technology domain skills in naval platforms, electronics, electro-optical and other relevant technologies are key additional strengths in underpinning the new Company's defence strategy.

It will have an **International market presence second to none**, with significant operational presence in both Europe and the US. In particular, with the strong US Research and Development investment contribution in defence, MES's US footprint is a strategic asset to the new company.

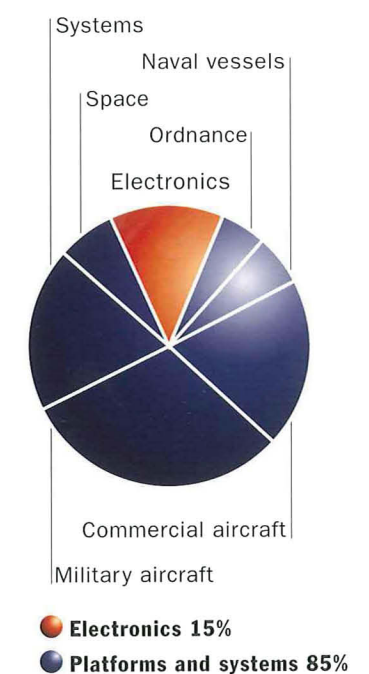
A **major boost in operating performance** and, hence, competitiveness, can be realised through the synergies and opportunities available to the new Group. Specifically, the combination of MES's skills in cost management and financial control, coupled with BAe's

skills in large scale project management and system integration has the capability to produce significant benefits.

It will establish a **broad based Aerospace & Defence Systems company** with the size and capability set and balance sheet to ensure it remains a major player in the further global consolidation of the industry.

The combined companies will have the capability to generate **significant top line growth** by combining their respective skills in the export market and in customer support.

## COMPOSITION OF BAE SYSTEMS ACTIVITY



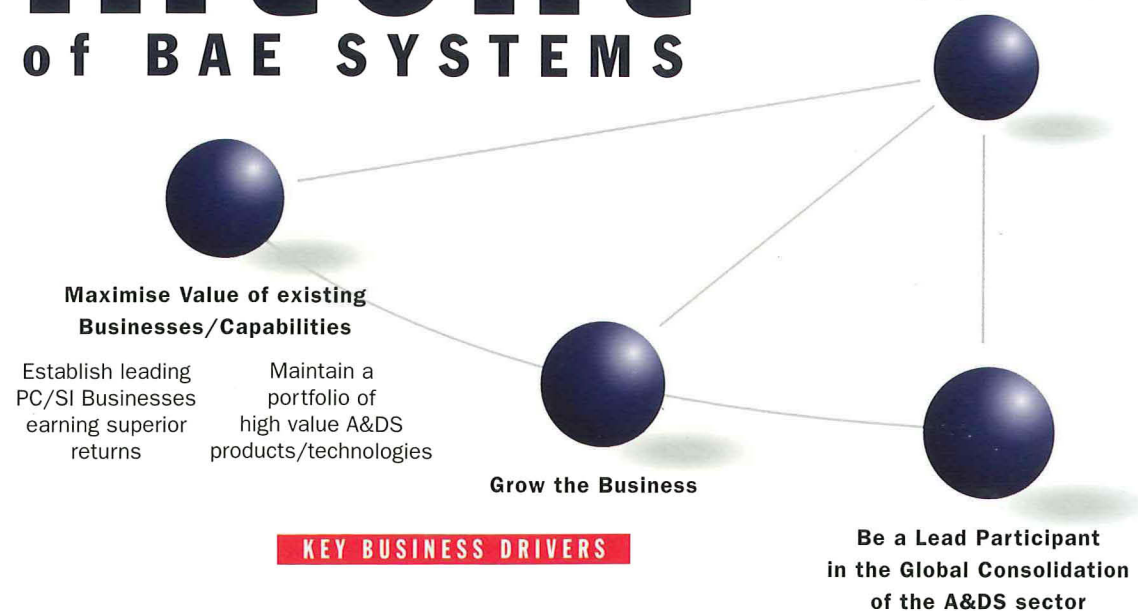
The highest level strategic aim for  
**BAE SYSTEMS** is to be the Benchmark  
 Aerospace and Defence Systems Company

Worldwide. In order to support this aim the  
 strategic intentions of BAE SYSTEMS have been  
 defined through three key business drivers:

# strategic intent of BAE SYSTEMS

## OVERALL STRATEGIC INTENT

Be the Benchmark  
 Aerospace and Defence Systems  
 Company Worldwide



## SUPPORTED BY THE KEY OBJECTIVES: Establish Leading Prime Contracting and System Integration Businesses

- Be a major player in Prime Contracting and System Integration, with the aim of consistently earning returns in excess of the cost of capital
- Aim to achieve this by:
  - *Selective participation in programmes, focusing on those capable of delivering superior returns*
  - *Drive all businesses to achieve superior returns and plan exits for those that underperform over time*
  - *Capturing as much as possible of the full life cycle value*
  - *Maximising export values*
  - *Optimising risk management*

## Maintain a portfolio of high value Aerospace and Defence Systems products/technologies

- Have products throughout the supply chain that:
  - *Offer attractive returns*
  - *Support value capture in Prime Contracting and System Integration*
  - *Are focused on providing a decisive edge to customers*

## Grow the Business

- Extend Prime Contracting/System Integration into all defence and related commercial technology domains (eg Command, Control, Communication, Computers and Intelligence – C<sup>4</sup>I, related IT and Government systems)
- Capture increased value from civil aircraft market growth
- Increase access to customer support and outsourcing (civil and military)
- Increase value/revenue from export markets

## Be a lead Participant in the Global Consolidation of the Aerospace and Defence Systems Sector

- Maximise access to large scale Aerospace and Defence Systems Research and Development worldwide
- Secure increased export market access
- Enhance competitiveness of Airbus Industrie through industrial restructuring

## MAJOR CHALLENGES FOR BAE SYSTEMS

Looking forward, BAE SYSTEMS will face three major Group wide challenges in realising this strategic intent:

### Operational

- Ongoing business performance (maximising the value from the existing order book and ensuring the synergies and opportunities from the merger are delivered)
- Achievement of profitable growth in the business

### Portfolio

- The integration of MES and BAe businesses to maximise the benefit from the combined portfolio
- Further strengthen our capabilities, particularly in Systems, Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance – C<sup>4</sup>ISR, and Information Technology
- Optimising the benefits from the Group's involvement in Joint Ventures
- Restructuring Airbus

### Consolidation

- Continuing to be proactive in the global consolidation of the Aerospace and Defence Systems industry.

**A**ddressing the challenges begins by achieving a successful merger, and using it to catalyse a number of other changes.

This means setting a number of aspirations for the merger.

Our starting point is:

# merger aspirations

“To use the merger of BAe and MES to take a major step towards achieving our long term vision, beyond the simple integration of the two companies”

This in turn has four underlying themes with a number of important implications:

## 1 WE WILL “UNFREEZE” CURRENT PRACTICES IN BOTH COMPANIES TO ACHIEVE A STEP CHANGE IN OPERATING PERFORMANCE

A true commitment to “unfreezing” the previous organisations and achieving a step change in performance implies a number of quite radical moves. For example:

- Adopting stretch targets with no “sacred cows”

■ Aiming to take a significant number of actions over the first three, six and 12 months to change and improve fundamentally, how things are done; eg:

- Approach to Research and Development
- Adopting a Centres of Excellence Policy
- Procurement
- Approach to project management/prime contracting

- Establishing a strong performance ethic as one of the key characteristics of the new company; eg:
  - Setting explicit targets for all Managers/Executives
  - Tracking performance against targets
  - Applying clear consequences (compensation, promotion, etc) according to individual performance
- Significantly exceeding the £55 million savings target set for the year 2000.

## 2 WE WILL RELENTLESSLY SEEK OUT AND ADOPT WORLD CLASS BEST PRACTICE, FROM EITHER COMPANY OR FROM OUTSIDE

Becoming the Worldwide benchmark company has to start with the merger. This means pursuing a very open-minded approach to the merger:

- Putting the best person in each role, irrespective of where they come from

- Actively looking for what is best about the other company and adopting it subject to testing it against world best practice. Having a bias towards that which is ‘not invented here’
- Requiring all Synergy Delivery Team (SDT) plans to be benchmarked against world best practice
- Establishing strong functional heads to identify, promulgate and, if necessary, enforce world best practice
- Institutionalising benchmarking against world best practice, for example in the adoption of common processes

## 3 WE WILL ENSURE BAE SYSTEMS IS A SEAMLESS WHOLE, WITH A CLEAR AND HOMOGENEOUS IDENTITY, AND COMMON CRITICAL PROCESSES ACROSS THE WHOLE COMPANY

Another aspiration is that BAE SYSTEMS will not look like a combination of two or more companies. This means, for example:

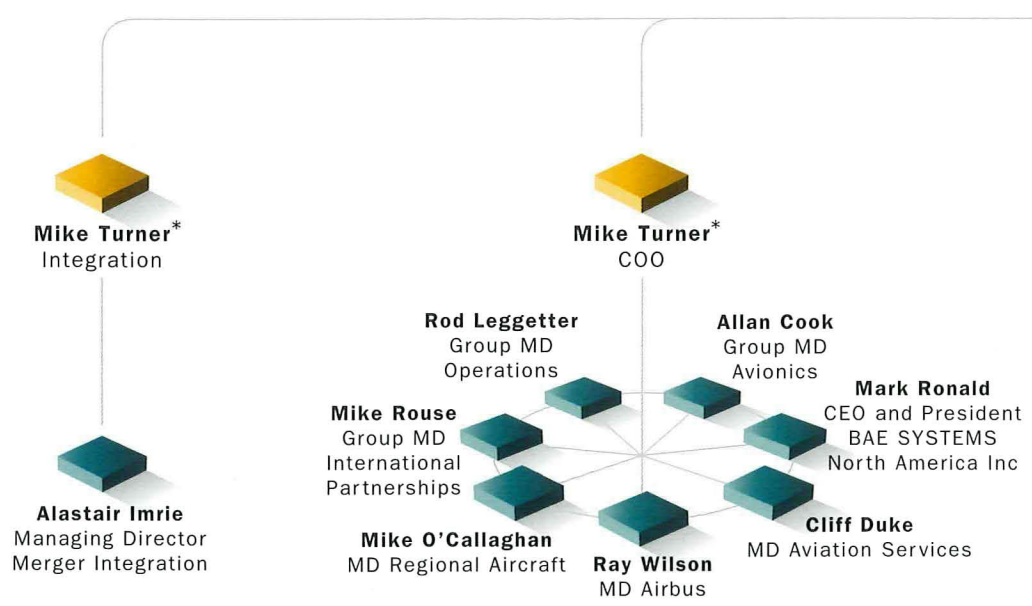
- Investing in building knowledge of, and alignment between, the two companies
- Making a proactive effort to inculcate common values

- Establishing a common trading name
- Actively seeking to cross-staff between former MES and former BAe units
- Making sure customers see a common face for BAE SYSTEMS
- Identifying critical processes that should be common across BAE SYSTEMS and ensuring they are adopted

## 4 WE WILL ACHIEVE ALL OF THIS AS FAST AS POSSIBLE, BUT WITHOUT DAMAGE TO OUR PERFORMANCE

Finally, our goal is to do all of this as fast as possible, subject to not damaging the business. This means:

- Always looking for ways to go faster, rather than excuses to go slower
- Making staffing the Synergy Delivery Teams the highest priority
- Ensuring all managers and Executives “own” the Synergy Delivery Team goals



# BAE SYSTEMS organisation

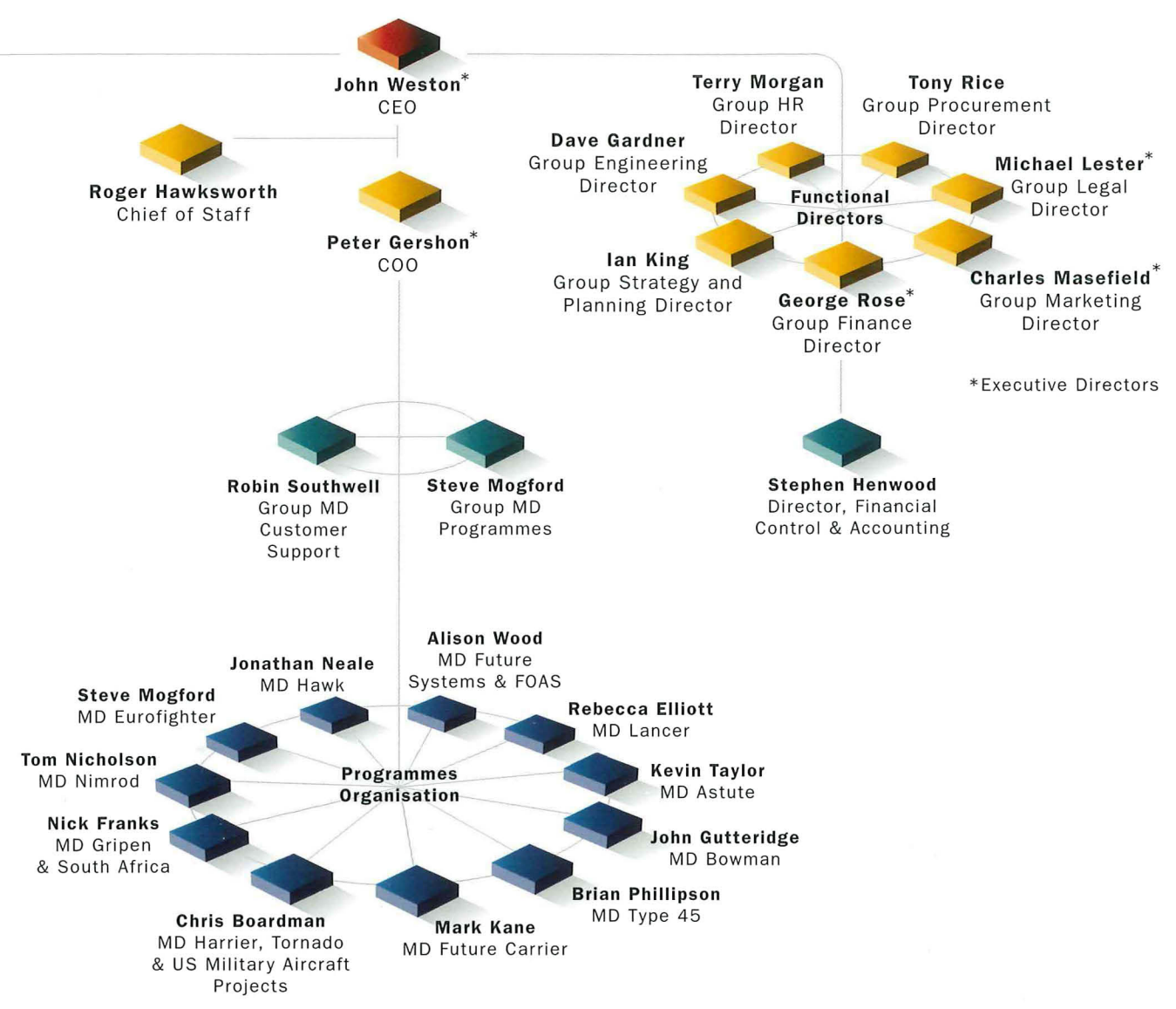
Our new organisation has been designed to:

- Give us a real customer focus through a strong programmes-led organisation, which will better reflect the radical change we are seeing in our customer community, and really enable us to meet their needs
- Allow us to deliver the synergy savings we have committed to our shareholders
- Create a single, seamless company philosophy through common critical processes, owned by Functional leaders
- Use this strong Functional leadership to ensure effective allocation of resources, and development of professional expertise
- Flatten the existing structures, to allow us to operate with greater responsiveness and flexibility
- Build on the strengths of both BAe and MES, combining the best practice from each
- Enable us to fulfil our regulatory undertakings.

**OUR VISION**

**Our aim is simple, but ambitious: to be the Benchmark Aerospace and Defence Systems company worldwide.**

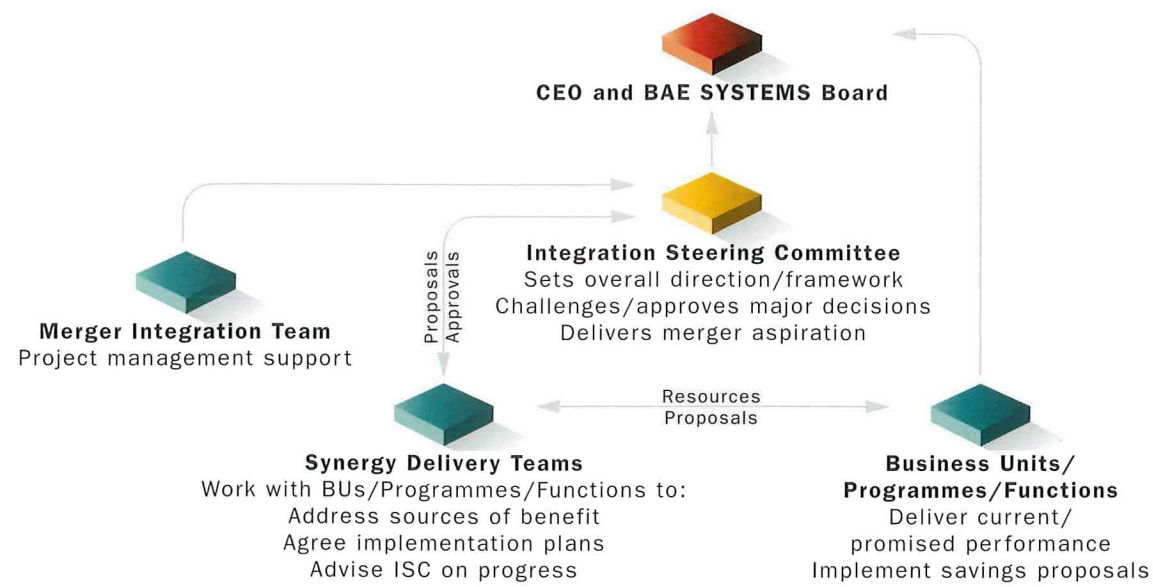
**We will achieve this by maximising the value of our existing businesses and capabilities; by growing the business, and by being a lead player in the global consolidation of the aerospace and defence systems industry.**



**OUR VALUES**

- To achieve our aim we have established five guiding values:
- CUSTOMERS – OUR TOP PRIORITY**  
We will delight all our customers, both internal and external, by understanding and exceeding their expectations.
  - PEOPLE – OUR GREATEST STRENGTH**  
All our people will be encouraged to realise their full potential as valued members of the team.

- PERFORMANCE – OUR KEY TO WINNING**  
We will set targets to be the best, continually challenging and improving the way we do things, both as individuals and as members of our teams.
- PARTNERING – OUR FUTURE**  
We will strive to be the partner of choice, respected by everyone for our co-operation and openness.
- INNOVATION AND TECHNOLOGY – OUR COMPETITIVE EDGE**  
We will encourage a hunger for new ideas, new technologies and new ways of working, to secure sustained competitive advantage for our company.



# how we will manage the integration

How the Process works:

**THE INTEGRATION STEERING COMMITTEE (ISC) (MERGER INTEGRATION TEAM)**

- The ISC is the Line/Functional management group accountable to the CEO and the BAE SYSTEMS Board for delivering the Merger Aspirations
- ISC responsibilities include:
  - setting overall direction and framework
  - challenge/approval of major decisions
  - delivering results
- Merger Integration Team (MIT) works full time for the ISC to

provide the project management support it requires

- Meets monthly

■ Comprises:

**Executive Directors**

Mike Turner (Chairman), Peter Gershon, Michael Lester, Charles Masfield and George Rose

**Line/Functional Management**

Allan Cook, Dave Gardner, Roger Hawksworth, Stephen Henwood, Alastair Imrie, Ian King, Rod Leggetter, Steve Mogford, Terry Morgan, Tony Rice, Mark Ronald, Mike Rouse and Robin Southwell

- SDT leaders will be invited to attend as required

**BUSINESS UNITS/CUSTOMER SUPPORT AND PROGRAMMES/FUNCTIONS:**

Accountabilities include:

- Delivery of current and promised performance
- Implementing synergy/unfreezing savings proposals to deliver the merger aspiration targets
- Providing resource on temporary loan to the Synergy Delivery Teams

**SYNERGY DELIVERY TEAMS**

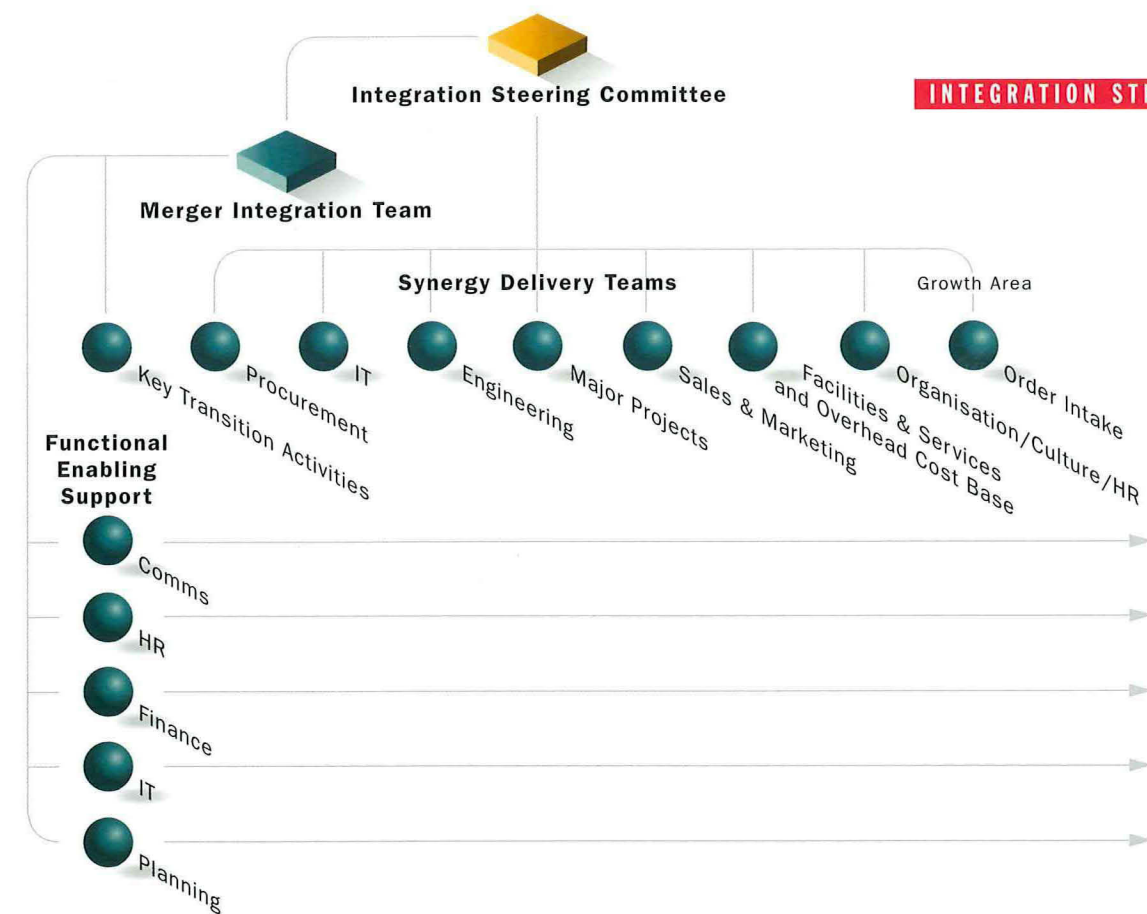
- Report to the Integration Steering Committee
- Work in conjunction with the BUs/Programmes/Functions to:
  - confirm the baselines from which the targets apply
  - address sources of synergy/unfreezing benefits that impact across BUs/Programmes/Functions
  - agree implementation plans within their delegated authority (when authorised by the ISC for major proposals)
  - advise the ISC on progress towards achievement of the benefits

■ A member of the ISC sponsors each SDT

- Each SDT has a full-time leader
- Each SDT is composed of team members drawn for the minimum possible period from the relevant BUs/Programmes/Functions across the organisation
- The general intention is that team members return to their BU/ Programme/Function to lead/support implementation of developed proposals, but regroup periodically to share successes and issues

**PROGRESS TOWARDS THE MERGER ASPIRATION**

- SDT sponsor and team leader will deliver robust proposals to the ISC which in aggregate will deliver the overall synergy/"unfreezing" targets
- Savings proposals agreed by BUs/Programmes/Functions with each SDT should include the method to be used by the BUs/ Programmes/Functions to track progress against plan
- ISC and each SDT to determine, with Group Finance, what practical mechanism is used for monitoring progress against the merger aspiration as required for internal assurance and external audit purposes



We are a company that leads the way with a strong philosophy of success through partnering.

We are a company with an outstanding track record of 'innovations and firsts', relentlessly pushing back the frontiers of existing knowledge.

We are one of the top systems integrators, with the capacity to manage complexity in depth and scale.

We are a company with the products and services to satisfy the totality of our present and future customers' needs.

We are an international organisation and place a very high value on respecting the customs and cultures of the countries in which we operate.

s o m e **reasons**  
**BAE**

We are an important contributor to the national economies in which we operate, investing in job creation and community infrastructure, particularly education, and building a reservoir of high added-value skills.

We have a 'can do' culture, rooted in an analytic, practical and energetic approach to providing solutions.

We are a company shaped by our unique history of expertise and experience – a company proud of the loyalty, commitment and passion of its people. Together we can achieve anything. Just imagine.

t o b e **proud** o f  
**SYSTEMS**





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