

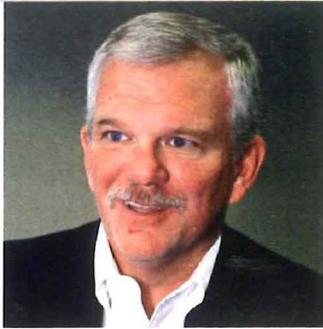
Perform first
Focus on end user
Think bigger
Be bold



BAE SYSTEMS

President's message

Each year we use the power of a theme to guide our efforts to see and understand the needs of our customers during the year. Last year, we pledged to Perform First, Focus on the End User, Think Bigger and Be Bold. I believe the success we had in 2007 was in part due to you keeping these imperatives in mind. For that, thank you.



Because these ideas were so successful in guiding our efforts, we'll continue to focus on them throughout 2008. Why tinker with success? But I'd also like you to keep in mind some other ideas that we must employ if we are to succeed – not just for our business, but also for our customers.

The aerospace and defense market is undergoing dynamic changes due to the Iraq war and the War on Terror. Tactics, techniques and training change almost daily. We know that the defense market will shrink – that's a reality. We need to be agile enough to compete in that tightening market. It has never been more important to understand the mission of our customers so that we can figure solutions to their problems and be the company they can depend on for answers. I know we have the capability, and the innovation to do so.

Our business priorities going forward in 2008 and beyond will focus on five actions:

Perform. It's no surprise. Our customers expect – and deserve – that we meet their expectations and provide them what we promise. We must have a great track record of performing and delivering so that the customer is willing to work with us above anyone else. It boils down to maintaining our reputation for keeping promises and delivering. We will need to perform on both technology and delivery if we are to continue to succeed.

Lean. We need to Lean our infrastructure so that we can put more resources back into the business. This means finding ways to work more efficiently and to use every advantage we can. Last year's successful Phase 2 integration was a good example of leaning. The integration saved \$30-40 million that we put back into the business. I know there are more opportunities to lean the organization, and I know that many of you have these ideas. Don't be shy about coming forward with them. It's all about being bold.

Invest Strategically. When we reinvest these savings back into the company, we must do it wisely. We'll carefully examine new markets we need to be in – the "white space" around our Big Blue Arrows. The aerospace and defense electronics arena is large, and there's lots of opportunities. We'll also look into the adjacent markets, like in the commercial arena where we have made great inroads with our controls and avionics and hybrid electrics. We need to look outward

for more opportunities like our First InterComm™ product, where first responders are now using tried and true military communication technology.

Innovation and Collaboration must be a part of everything we do. Innovation includes inventing new products and services, as well as developing organizational structures, competencies, processes and partnerships which will be responsive to future market needs. Collaboration means working creatively and cooperatively with entities internal and external to the operating group.

People. Finally, we need to continuously develop our people. We need to provide solid, challenging work to the young people entering our company and those who have contributed diligently to our success and legacy. Today's workforce is unique. We have three generations in our company now: Baby Boomers, Gen X'ers and Millennials (Gen Y'ers). Each has their own strengths. The challenge is that we be open to those strengths and ideas and allow them room to grow. Employees have always been and remain our greatest strength.

These actions are not light challenges. In the end – with your help – we'll succeed in implementing them and ensure a successful path forward for the men and women who go in harm's way to defend us.

Everyday, I think about how proud I am to serve with you in meeting the needs of our customers, our nation, and our Company.

Thank you.

Michael A. Heffron, President
Electronics & Integrated Solutions

E&IS 2008 objectives

1. Meet or exceed business plan
2. Achieve 95% mission success, 100% critical events
3. Improve program performance
4. Ensure 100% compliance with the Operational Framework, LCM, and mandated business policies and processes
5. "Lean" operating costs
6. Grow the business
7. Increase collaboration and cooperation
8. Shape and grow our innovation solutions "dots"
9. Remain employer of choice
10. Foster and develop an innovative environment

E&IS guiding precepts

Last year's guiding precepts will again guide us in our efforts to grow the business and serve our customers:

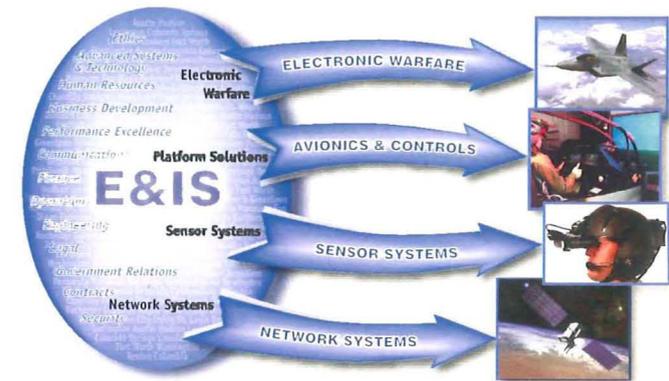
Perform First – Build on our record of performance, reliability, and predictability to take market share.

Focus on the End User – maintain our position alongside the customer to better anticipate, understand, and meet the requirements of the end user.

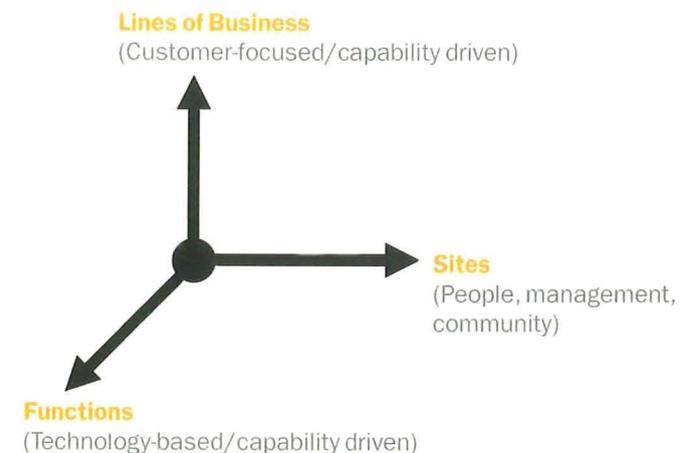
Think Bigger – collaborative actions across the operating group, across Inc., across BAE Systems that give the customer a more capable resource.

Be Bold – "out of the box thinking" and actions that enable us to achieve our goals and take market share from the competition.

E&IS big blue arrows



E&IS 3-dimensional concept of operations



E&IS 2008 key events

E&IS has set key mission success dates for each line of business (LoB) major area and function. These "key dates" are the top priorities for success of those organizations, and will factor heavily into overall Operating Group success in 2008.

Lines of business

EW	12-31-08	Leveraged Technology & Innovation organization meets performance objectives
APEWS	07-18-08	Successful FIRETIP Preliminary Design Review
IDS	04-30-08	Successful Model 3.0 delivery
R&S	11-30-08	Complete Crimson Shield study
S&PS	10-31-08	Complete ATIRCM P3I Jam Head Proposal
NS (C3I)	05-30-08	Successful M1033 Phase 2 Final Acceptance Test
AIT	07-01-08	Definitize contract with Opportunity A customer
C&TN	11-30-08	Perform dismounted soldier communications demo
PS (CA)	11-30-08	Enhance mutual capabilities with strategic partner
DA	07-18-08	Successful recovery to in-station assembly schedule
VS	12-31-08	Successful entry into service of lithium ion energy storage system
S2 (IRIS)	06-30-08	Complete Thermal Weapons Site Bridge Qualification
AT	12-31-08	Demonstrate 1m x 1m High Power Microwave system performance
FS	12-31-08	Win \$20M in FAST2 orders
IS	06-30-08	Deliver final system T3
PT	12-31-08	Secure government fiscal year '09 APKWS funding
SI	11-30-08	Win Forward Viewer proposal
SSE	07-01-08	Successful Processor Subassembly flight delivery #2

Functions

AS&T	07-31-08	Successful XMC Module demonstration
BD	12-31-08	Identify/qualify \$200M in new/new Phase 0's
Comm.	12-01-08	Successfully execute LoB campaigns
Contracts	09-30-08	Develop, implement R&S and Performance-Based Logistics strategy
COS	12-30-08	Complete Phase 3 OG1 enhancements
Eng.	12-15-08	Complete three major Lean activities
Finance	03-15-08	Complete study of alternate Cost Accounting Standard segment structures
Govt. Rel.	03-31-08	Develop Government Relations compliance training
HR	12-31-08	Ensure that 500+ leaders attend Executive Institutes
IT	12-30-08	Support IT support transition from CSC to BAE-IT
Legal	12-31-08	Enter into agreements for \$5M in licensing/sales revenue
Operations	12-31-08	Meet cost takeout targets of \$58M
PE	11-21-08	Optimize project management capabilities
Security	07-31-08	Deploy IT configuration management system