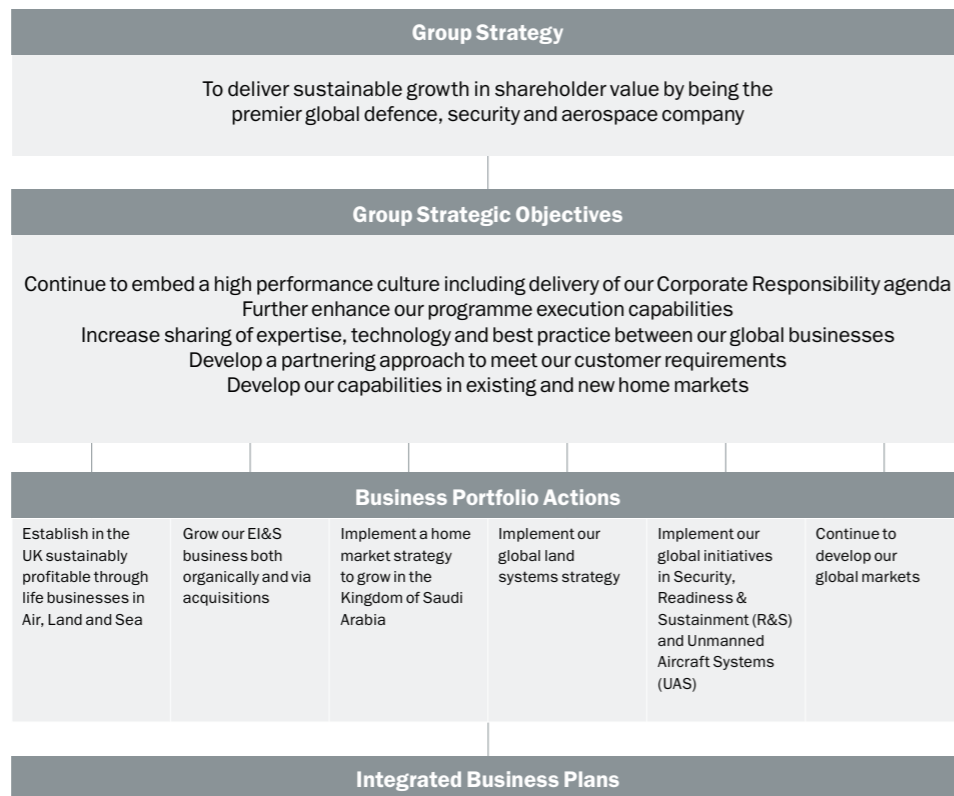


Our Strategy

Our goal is to be the premier global defence, security and aerospace company. We have firmly embedded our corporate responsibility (CR) agenda as a strategic objective within our Company strategy.



Our Company strategy (see diagram) emphasises our commitment to total performance in every aspect of our business – not only financial and programme performance, but also business conduct and other parts of our CR agenda. Our new organisation structure reflects this commitment, with the Managing Director Corporate Responsibility reporting directly to our Chief Executive, who is ultimately accountable for CR. As part of our Operational Framework the Executive Committee is responsible for driving our CR agenda, and the Line Leaders are supported by the Managing Director Corporate Responsibility.



BAE Systems' CR agenda and activity has matured considerably since we began reporting in 2001. To achieve our objective to demonstrate leadership in responsible business worldwide will require a sustained and focused effort to embed the necessary behaviours and an inclusive culture across all of our businesses. A key part of this will be delivering on the recommendations contained in the Woolf Committee Report to ensure we are recognised as a global leader in standards of business conduct (see page 14).

Leadership and role model behaviour at the most senior level are key to helping us fulfil our strategy. Our 2008 objectives on ethics, safety, and diversity and inclusion were to demonstrate leadership, as well as making progress towards our stated goals. To confirm the importance of these objectives, 12% of the available executive bonus allocation was set against performance on safety and ethics objectives.

During 2008, significant progress was made against the ethics objectives including developing the global Code of Conduct and commencing the rollout to all employees from January 2009. We are also on plan with our programme to implement the Woolf Committee recommendations. The Remuneration Committee awarded the full stretch payout to the executive directors in respect of that part of the annual incentive related to ethics performance.

On safety, all major operational sites achieved Level 3 (other than those acquired during the year) against the five-level Safety Maturity

Matrix and have submitted plans to achieve Level 5 by end of 2011 (see page 16). Senior leaders undertook formal training and completed safety audits. The gap between Company performance and external benchmarks on days lost to work-related injuries was closed by just over 9% during the year, falling short of the target of 10%. The Remuneration Committee awarded only one-third of the potential payout on that part of the annual incentive determined by safety performance.

In 2009, 12% of the available senior executive bonus will continue to be determined by our business conduct and safety performance.

Inclusion objectives have also been set within the individual performance objectives for the senior leaders. We continue to develop other aspects of our CR agenda, in particular environment and sustainability.

Our CR Committee, chaired by non-executive director Andy Inglis, reviews progress against our objectives quarterly. The CR Committee provides independent oversight, advice and strategic direction on business conduct, social and environmental issues. In 2008, the Committee's activities included:

- Oversight of health and safety performance
- Review and oversight on the development of our global Code of Conduct
- Ongoing review of performance against objectives
- A site visit to our Submarine Solutions site in Barrow-in-Furness, UK, to review and understand how CR has been embedded within the business.

Identifying our material issues

In 2007, we identified the CR issues which we believed to be the most material (relevant and significant) for our business. We analysed the issues that could have an impact on the sustainability of BAE Systems, either by directly impacting the Company's ability to operate or by affecting our reputation and the level of trust which our stakeholders have in our Company.

Following this review process, the following two priorities were identified and a programme was put in place to address them:

- Ethics – achieving leadership performance through implementation of the Woolf Committee recommendations
- Safety – ensuring a consistent level of good safety management in the short term and driving safety performance to a level comparable with leading companies over a four-year period.

In 2008 and 2009 we set management objectives to help drive us towards our desired leadership position in the areas of ethics and safety.

Diversity and inclusion is also recognised as an increasingly important issue for our business. The sustainability of our workforce and our ability to win and fulfil global contracts depends on our ability to recruit and retain the most talented people from all backgrounds.

Our environmental performance is also of increasing importance both due to the nature of our operations and growing interest in this issue among stakeholders, including our customers.

Our objectives

2008 objectives	Progress	2009 objectives ²
Business Conduct		
Establish global leadership standards of business conduct:		
- Senior leadership to communicate and demonstrate commitment to high ethical standards through employee engagement. Number of engagement events and employees reached to be measured.	- Senior leadership used opportunities of team meetings and conferences to emphasise importance of ethical business conduct.	- Senior leadership to lead two employee focus/engagement sessions to discuss the global Code of Conduct and ethical issues.
- Develop and roll-out a Group-wide Code of Conduct.	- Roll-out of the global Code of Conduct to employees across the Group commenced in January 2009 (see page 13).	- Deliver the 2009 Woolf Committee implementation plan milestones and obtain independent external assurance of this.
- Implement the response to the Woolf Committee recommendations.	- Detailed programme in place to implement Woolf recommendations, with a number of actions already addressed (see page 14).	- Employee sample survey on selected ethics questions to be carried out in the fourth quarter of 2009. Results to show an improvement relative to the 2008 survey results.
Safety		
Continue to drive performance in safety to a level comparable with leading performers:		
- Days lost to work-related injuries: Reduce the gap between 2007 Group performance and external benchmark by 10% in 2008 (benchmark is 2,000 days lost per 100,000 employees).	- The gap between Group performance and the external benchmark was reduced by just over 9% during 2008.	- Senior leaders each to undertake three safety audits, and flow-down training and requirement to conduct safety reviews to two levels below the Executive Committee.
- Senior leadership to demonstrate commitment to safety by undertaking formal training and conducting safety audits across our operations. Number of safety audits conducted to be measured.	- Training sessions held between May and August. Safety audits conducted by senior leaders (see page 16).	- Minimum of Level 3 on the SMM, with 60% of sites progressed to Level 4 by the end of 2009.
- Progress to benchmark safety performance against a five-level Safety Maturity Matrix (SMM) – all businesses to achieve Level 3 by the end of 2008 and have a plan in place to attain Level 5 by the end of 2011 (Level 5 has been benchmarked against leading companies).	- All BAE Systems' major operational sites (other than those acquired during the year) achieved Level 3 by the end of 2008. All businesses submitted Level 5 plans by the end of 2008.	- Incident rate targets to be set by businesses at a level reflecting the progress required to achieve the 2011 target of best in class.
		- Incident rate in 2009 to show at least a 10% improvement over 2008 and, for sites with significantly worse than best in class statistics, improvement targets to be set consistent with achieving best in class in 2011.
Diversity and Inclusion		
Create an environment that values and respects the contribution, based on merit, of all members of the communities in which we operate:		
- Senior leadership to demonstrate commitment to such an environment by attending a diversity awareness training programme by mid-year.	- A workshop on the role of leadership in establishing a diverse and inclusive culture was held in June at a senior leaders' forum. Many of the attendees led similar events with their management teams.	- Senior leadership to participate in a workshop to develop the inclusion agenda for their business. Senior leaders to lead two events with employee groups to develop action plans to address culture, barriers and improvements.
- Establish a Group-wide Women's Forum.	- Inaugural virtual global Women's Forum was held in June with 70 participants across seven locations from three countries. Eighteen locations in three countries participated in the second forum in October.	- Executive Committee to review the Operational Framework and supporting policies and processes to identify potential improvements required to develop a more inclusive culture. Initial changes to be included in the updated July 2009 version of the Operational Framework.
- Develop an action plan to enhance diversity and inclusion by mid-year.	- Each business set an action plan to address specific diversity and inclusion issues identified in the Employee Opinion Survey. A summary of the 2008 survey results is set out on page 28.	- Senior leadership to develop one personal objective on inclusion during the first half of 2009 for implementation in the second half of the year.

² Business Conduct and Safety objectives are two of the Executive Committee's top ten objectives for 2009. Diversity and Inclusion objectives have been set within the individual performance objectives for the senior leadership.



Going Forward

In 2008, we created a new position, Managing Director Corporate Responsibility, to reinforce our commitment to achieving leadership performance in responsible business worldwide. Raj Rajagopal has been appointed to this position and reports directly to our Chief Executive, Ian King. As former President of our Ground Systems business, Raj has extensive knowledge of BAE Systems and a track record of successful programme management. His remit includes ensuring the Company's policies and processes meet with high standards of business conduct. He will also be responsible for developing and supporting the implementation of our policies on safety, health and the environment, and helping to embed them throughout the Company.

In 2009, our CR team will review our CR agenda and identify medium and long term goals. Their remit will be to:

- Establish a CR plan to support the Company's strategic direction and CR objectives. This will include metrics and Key Performance Indicators
- Ensure adequate resources are available to implement the CR Plan
- Support leaders in implementing our 2009 CR objectives
- Develop assurance criteria for Woolf implementation and CR Reporting for 2009
- Support the CR Committee
- Ensure effective, timely and accurate external reporting of the Company's CR activity.

Raj Rajagopal Managing Director Corporate Responsibility