

Our workplace is changing. A growing number of our employees are based at customer sites, providing maintenance and support services on military bases and for troops on the front line.

Our changing workplace requires new skills and capabilities and a different approach to people management. At the same time our business is expanding internationally as we increase our presence in key markets. We need to create a mobile workforce and use skills and capabilities from across BAE Systems to service customers wherever they are based.

These changes are taking place against the backdrop of a skills shortage and increased competition for science and engineering graduates in many of our home markets.

We must anticipate and respond to these trends. Our approach includes:

- Expanding our recruitment pool to include talented people from both genders and all backgrounds
- Creating an inclusive work environment that supports the retention of skilled employees, and encourages collaboration between employees in different markets
- Providing training to help employees keep abreast of changing customer requirements
- Good communication that keeps all employees involved and motivated regardless of location.

Diversity and inclusion

We aim to establish a diverse workforce. The main challenges are increasing the percentage of women in our workforce, and increasing ethnic diversity in countries such as the UK.

Our senior leaders are responsible for creating an inclusive work environment. This is included in the objectives for all Executive Committee members (see page 4).

Senior leaders received inclusion awareness training in 2008 to help them understand their role in creating an inclusive culture. This training outlined the business case for a diverse workforce and provided material to help leaders engage employees on diversity.

Our global Code of Conduct (see page 13) covers inclusive workplace behaviour. This is distributed across our businesses and encourages employees to report inappropriate or unacceptable behaviour, either by speaking to their manager or contacting our Ethics Helpline.

Gender

Increasing gender diversity continues to be challenging in our industry. Today, the percentage of female engineering and technology graduates remains low in many countries – only 15% in the UK, for example (according to Higher Education Statistics Agency data from 2005 to 2007).

Our approach to increasing gender diversity includes:

- **Education** – our schools programme challenges perceptions that engineering is a male career choice (see page 30).
- **Recruitment** – we have reviewed our graduate recruitment brochures and websites to ensure they appeal to a diverse audience and include case studies of female graduates
- **Leadership development** – we have identified female employees in each business who have the potential to become senior leaders. They have been appointed a senior mentor to help identify development needs and provide guidance on career planning
- **Flexible working** – many of our businesses enable flexible working, including part-time working
- **Women's networks** – these provide female employees with a wider network of contacts and support. They also act as a source of expertise to help the business identify barriers and enablers to the inclusion of women at all levels of the Company. In 2008 we held two women's forums, uniting more than 70 employees from a number of sites globally, to raise awareness of women's networks. These were led by senior

executives. We have also launched a 'Women at BAE Systems' online forum and held awareness sessions on women's networks across the business.

BAE Systems was included in the UK Times newspaper's Top 50 places Where Women Want to Work list in 2008, for the third year. In the US, BAE Systems was selected from over 500 nominations as Best Employer to Work For by the Institute of Electrical and Electronics Engineers' (IEEE) Women in Engineering magazine.

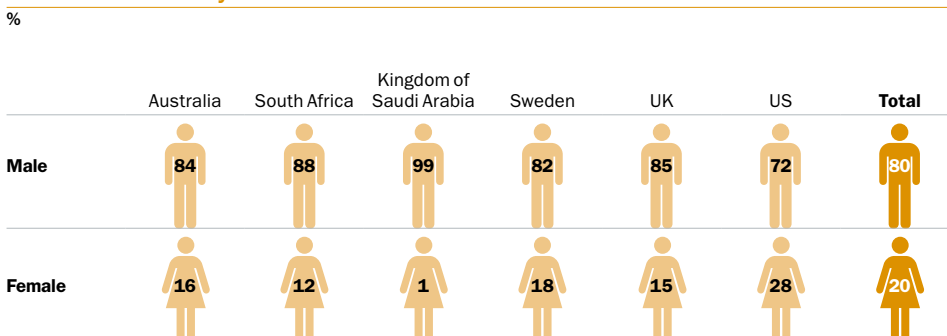
In 2008, the percentage of women in the business remained almost constant at 20% (compared with 21% the previous year).

Ethnicity

Our approach to ethnic diversity is tailored to local culture and heritage in each of our home markets, subject to compliance with local laws. For example, in South Africa we are increasing the number of previously disadvantaged individuals in the workforce, in line with the South African Government's Broad Based Black Economic Empowerment (BBBEE) initiative. In Saudi Arabia we are focusing on increasing the proportion of Saudi nationals in the workforce (see case study page 29).

In the US we are focusing on encouraging African American students to consider a career at BAE Systems. In 2008 we participated in the two-day career fair at the 2008 National Black Engineer of the Year Awards. We also sponsored a National Society of Black Engineers' Dinner, attended by high school students hoping to receive scientific, technical, engineering, or mathematical scholarships.

2008 Gender diversity





Supporting on the front line

The Human Terrain System (HTS) is a US Army programme which allows anthropologists to work alongside other social scientists with combat brigades (currently in Iraq and Afghanistan) to help tacticians in the field understand local cultures using Human Terrain Mapping. The goal of the HTS is to give commanders insight into the population and its culture in order to enhance operational effectiveness, and reduce military and civilian conflict.

BAE Systems Technology Solutions and Services (TSS) is the prime contractor on the HTS providing commanders in the field with relevant socio-cultural understanding to help meet their operational requirements. Our employees advise US Army units on economic development, political systems and tribal structures, and conduct research on topics of interest to the unit staff. BAE Systems also assists in the hiring process and strategic communications surrounding HTS work.

As of February 2009, there were approximately 450 BAE Systems TSS and subcontracted employees working to support HTS. Increased understanding of local cultures and socio-political realities has led to a significant decrease in violence.

In 2008, three fatalities occurred among our employees deployed on active service with the US armed forces in Iraq and Afghanistan, as part of the Human Terrain System. These are subject to ongoing military procedures and investigation. We recognise the bravery of these individuals in being prepared to enter dangerous territories to support the work of our armed forces.

Photo courtesy of US Department of Defense

Rosalind Murray

Winner of engineer of the year 2008, Operations Change Manager, Submarine Solutions

"I studied Materials Science and Metallurgy at University. After graduation I joined an accountancy firm, which I didn't enjoy at all so I came back to engineering and started in Barrow as a graduate engineer.

In my current role I'm helping bring lean manufacturing principles to submarine building. This involves coaching colleagues to improve the way they work. We have to show people that they have the power to change things – that's when improvements happen. I love the challenge and the knowledge I'm contributing to such an impressive and complex product. In the long term I'd like to be a company director, but we'll see what the future brings and I'll take it one step at a time.

In some ways being a woman in an engineering company can be an advantage, as it helps you stand out from the crowd. But it also brings quite a few challenges. It can be tough gaining credibility when working in what at times can be a macho culture. More often than not you are the only woman in the room and that can be quite intimidating.

We need to encourage more women to enter the industry. This means working with schools and universities and creating the right environment so that women feel valued and have the opportunity to build their careers. There are still lots of assumptions about the challenges that face

women in our industry. Making an effort to understand these is important to changing mindsets, even if it means asking uncomfortable questions.

I have been helping to set up and run the Submarine Solutions women's network. It's a great chance to share what I've learnt with others as well as learn from them. It has been fantastic to see the level of engagement within Submarine Solutions, and that the Company is taking the 'gender agenda' seriously."

Age

The average age of our workforce is an issue and we have succession planning in place to prepare the Company for changes as employees retire. Business initiatives include identifying high-potential employees and ensuring they work closely with those who are about to retire to transfer knowledge and expertise. Retirees are encouraged to share their knowledge through documentation and coaching sessions. Where practical, we offer flexible working for employees who would like to reduce their hours as they approach retirement and want to explore other activities.

Training and development

We must ensure that employees develop their skills and keep up with changing technology and customer requirements. In addition we support apprenticeships and other initiatives that increase the numbers of qualified engineers, technicians and project managers.

In 2008, we employed 347 new apprentices in the UK, and 712 people joined BAE Systems through our graduate recruitment programmes in the UK and the US. In addition, we employed 410 summer interns in the US, and 31 students in industrial placements in the UK.

We work with customers to develop and implement training for the defence industry. Skilling Australia's Defence Industry (SADI) is one example, sharing the responsibility for skills growth and development between the defence industry and the Australian government. Through the partnership we have helped launch the Military Systems Integration (MSI) programme, which is managed by the University of South Australia as a postgraduate course. It provides targeted training in a realistic environment using industry processes and procedures.

Employee development

Progress and development are monitored for all employees through annual performance and development review meetings. We have a leadership development scheme for high potential employees.

Our leadership programmes include:

- Assessment centres in the US which target potential senior leaders and candidates for Vice-President and President roles. Participants are assessed on their leadership competencies and style, and are provided with development planning support and coaching
- The Emerging Leaders Programme which is a new global programme focusing on identifying, selecting and developing high-potential employees. In 2008, 45 participants from around the world took part and all came together at a single event for the first time.

Employee communications

Good communication helps keep our workforce engaged and motivated. Our approach includes regular employee surveys, global, regional and departmental newsletters and our new global intranet site. We also engage with our people through employee representative bodies and trade unions. These relationships are important in helping us resolve issues and improve our employment policies.

This year, our biennial employee survey was completed by more than 58,000 employees. The survey helps us measure progress on implementing our CR objectives and responses showed strong awareness of our three CR priorities: safety, business conduct and diversity. Key results from the 2008 survey are shown in the table below.

In response to the survey results, the Executive Committee has agreed four performance improvement priorities for all parts of our business.

These are to ensure that:

- Personal performance objectives are clear and measurable
- People are properly recognised for doing a good job
- Business changes that affect us are communicated in a timely manner
- Our working culture enables everyone to demonstrate high standards of business conduct and to speak up and challenge inappropriate behaviour.

Each of our businesses has developed action plans to address local survey results, which will include measures to address the four global priority areas. The Executive Committee will regularly review progress made against action plans.

2008 Age diversity

%

25 years and younger



26-35 years



36-49 years



50-59 years



60 years and older



2008 Ethnic diversity

% in UK, US & South Africa

	UK	US	SA	Total
White	97	75	48	85
Non-white	3	25	52	15

2008 Ethnic diversity

% in Kingdom of Saudi Arabia

Saudi national	57
White European	33
Asian	0
Other	10

Key results from the biennial employee survey

%

Question	Favourable score in 2008	Change from 2006 score
Overall job satisfaction	71	+3
Satisfaction with career	56	+4
Belief that BAE Systems demonstrates clear ethical standards	73	+7
Clear and measurable personal objectives	67	-3
Receive regular updates on performance against the business plan and strategy	58	-3
Acting on Customer feedback	70	-3



Saudisation

In Saudi Arabia we are committed to training local nationals for management, technical and other qualified positions. This process is known as Saudisation. It brings social and economic benefits to Saudi Arabia and ensures that BAE Systems has access to a wider pool of talented employees.

The company focuses on supporting the career aspirations of its local workforce. Among our programmes is the Mustakbal management development scheme providing participants with career development support, leadership training and qualifications. Various long and medium term schemes are also used to equip employees with advanced engineering, technical and administrative skills.

Training is provided to customers and others in Saudi Arabia on a third party basis. We are involved in Royal Saudi Air Force (RSAF) training programmes, and have contributed to the training of 2,600 pilots and aircrew, 3,000 ground-based officers, and nearly 20,000 technicians over the past 33 years. Training related to Typhoon aircraft, industrialisation and for the Royal Saudi Naval Force has also been conducted.

Our programmes are having an impact. In 1994, we employed 700 Saudi nationals – 15% of our workforce in the country. Today, Saudis constitute 57% of the total number of our employees, making BAE Systems one of the country's largest private sector employers of Saudis. In 2007, the management board of Customer Solutions and Support International relocated from the UK to Riyadh, reflecting our commitment to developing our Saudi business. There is now Saudi representation on this board.



Debbie Sallis

Vice President Human Resources, Land & Armaments

“Our vision to be the premier global defence, security and aerospace partner is both exciting and challenging. It means our people need to deliver leading performance in very different environments; whether that be at a BAE Systems facility or working alongside our industrial partners and customers on their sites.

It helps to have people who understand local customs and languages but it is even more essential to respect different cultures and be open to working with a broad spectrum of colleagues. Our ability to work together across national boundaries will enable customers to tap into our immense capability anywhere in the world.

The challenge is finding competent individuals who are adaptable and willing to be a part of a diverse and often virtual team. Experience of living and working in another culture is an asset, particularly for key management and leadership positions. As more of our employees are stationed at customer facilities, some in conflict zones, we must ensure access to BAE Systems tools, support and advice. Thought and planning is required to help us select the right people for these roles, and ensure they are sufficiently adaptable and resilient to cope with varied – and often tough – working environments.”