



Corporate responsibility
summary 2018

Introduction

At BAE Systems, our advanced defence technology protects people and national security, and keeps critical information and infrastructure secure. We search for new ways to provide our customers with a competitive edge across the air, maritime, land and cyber domains.

We employ a skilled workforce of 85,800¹ people in over 40 countries, and work closely with local partners to support economic development by transferring knowledge, skills and technology.

1. Including share of equity accounted investments.

Introduction

BAE Systems overview	2
Market context	3
Our markets	4
Chief Executive's review	5
Corporate Responsibility Committee Chairman's review	6
The big picture	7
Materiality – Deciding what matters	10
Stakeholder engagement	11
Strategy	12
Our approach to the UN Sustainable Development Goals	13
Corporate responsibility governance	14

2018 review

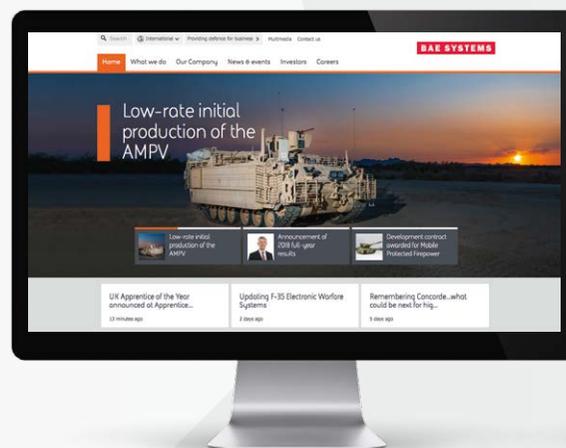
Safety and wellbeing	17
Trust and integrity	19
Accelerating our performance	22
Resource efficiency	28
Community investment	31
Product stewardship	33
Responsible procurement	36

Additional information

Contact us	38
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→ Read more online www.baesystems.com/corporateresponsibility



BAE Systems overview

Our market environment is ever changing, reflecting geopolitical and rapid technological shifts. We have to respond to current and future customer requirements for national security.

BAE Systems' advanced technology is designed to enable customers to deal with the pressures of a complex and changing world, protecting people and keeping critical information and infrastructure secure.

Advanced engineering and research programmes provide customers with a competitive edge across air, maritime, land and cyber domains. Our skilled workforce works closely with local partners to deliver for our customers and support economic development by transferring knowledge, skills and technology.

This significant international presence, one of the broadest in the defence industry, is supported by long-standing customer relationships, particularly with Governments and their agencies, allied to diverse capabilities across the Group. This mix of world-class engineering and systems expertise is increasingly in demand across the corporate sector, where it is used to protect business systems, processes and reputations. In all cases, BAE Systems aims to ensure that customers are equipped to face present and future challenges.

BAE Systems products are designed for maximum utility. This entails working with our customers to enhance the lifetime of our products. A key focus is the potential for reuse and remanufacture of our products and the associated manufacturing processes.

A commitment to innovation and engineering excellence equips BAE Systems to deal with global challenges. This experience is carried over into the products and services that enable customers to meet the security and safety requirements.

BAE Systems makes a major contribution to the UK and Australian economies

Every two years we commission an independent report from Oxford Economics, a world leader in forecasting and analysis, to review our contribution to the UK economy. Their report published in 2017 showed that BAE Systems made an £11.1bn contribution to the UK economy in 2016, equivalent to 0.6% of GDP.

In 2018 Oxford Economics analysed the economic contribution of our business in Australia for 2017. They found a \$1.2bn direct contribution, with every \$1 of output boosting the Australian economy by \$2. We are proud to work with suppliers across many sectors all over Australia and have spent \$330m with them in 2017.



Every two years we commission an independent report from Oxford Economics, a world leader in forecasting and analysis, to review our contribution to the UK economy.

£11.1bn

Contribution made by our business in 2017 to the UK economy equivalent to 0.6% of GDP.

\$1.2bn

Direct contribution with every \$1 of output boosting the Australian economy by \$2.



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Market context

BAE Systems has leading positions in our four principal markets – in the US, UK, the Kingdom of Saudi Arabia and Australia – as well as established positions in a number of other international markets.

Supporting our customers

Our strategy is focused on providing a vital advantage to our customers across the US, UK and international markets. In particular, we have built strong positions aligned with our core defence platforms to support our customers in our four principal markets. These principal markets – the US, UK, the Kingdom of Saudi Arabia and Australia – have been identified as having a significant and sustained commitment to defence and security. BAE Systems has established strong and enduring relationships in these markets and is recognised as playing a key role in the industrial capability of each of these countries.

Our unique position and capabilities

Our strong position in the US through the Special Security Agreement, together with our standing as the leading defence contractor in the UK, provides us with unique capabilities that can be leveraged across the Group to support our customers. In addition, our diverse portfolio of capabilities in the air, maritime, land and cyber domains, provides us with a comprehensive offering for our customers around the world making us one of the broadest and most geographically diverse major defence companies.

Responding to changes in defence and security requirements

Our business continues to respond to geopolitical and technology trends that will influence and shape our customers’ defence and security requirements now and into the future. Our excellence in complex engineering, developing cutting-edge technology and seeking innovative solutions enables us to respond to our customers’ requirements for greater agility, global reach, and advanced technology products and services.

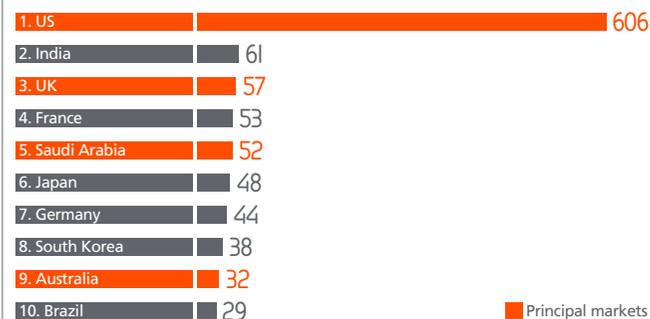
Growth aspirations

A number of key markets for the Group have either grown or stabilised spending in response to an increasingly uncertain security environment.

We have a significant international presence supported by long-standing customer relationships and the ability to leverage our range of capabilities around the Group. Following a number of significant wins in the last two years we continue to see further opportunities in a number of international markets.

Accessible global defence markets¹

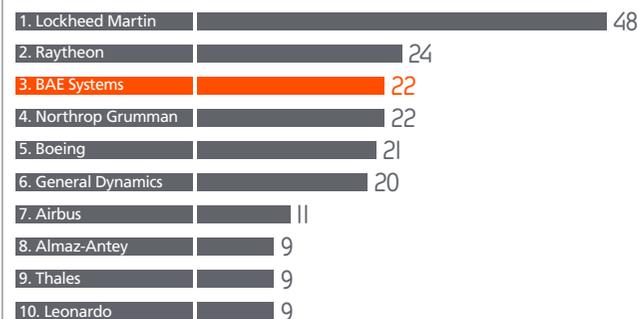
Top ten global defence markets accessible for business by the Group (\$bn)



Source: 2017 US budget as shown in the department of Defense Fiscal Year 2019 Budget Request and, outside the US, HIS Jane’s Defence Budgets (based on 2017 total defence budgets and constant 2018 US dollars).

BAE Systems’ global defence market position

Top ten global defence contractors’ revenue (\$bn)



Source: Defense News Top 100 for 2018 (based on 2017 numbers). Exchange rate applied to BAE Systems is \$1.289/£1.

1. Markets inaccessible for business by BAE Systems are excluded.

Our markets

We employ some 85,800¹ people making us one of the largest global defence companies.

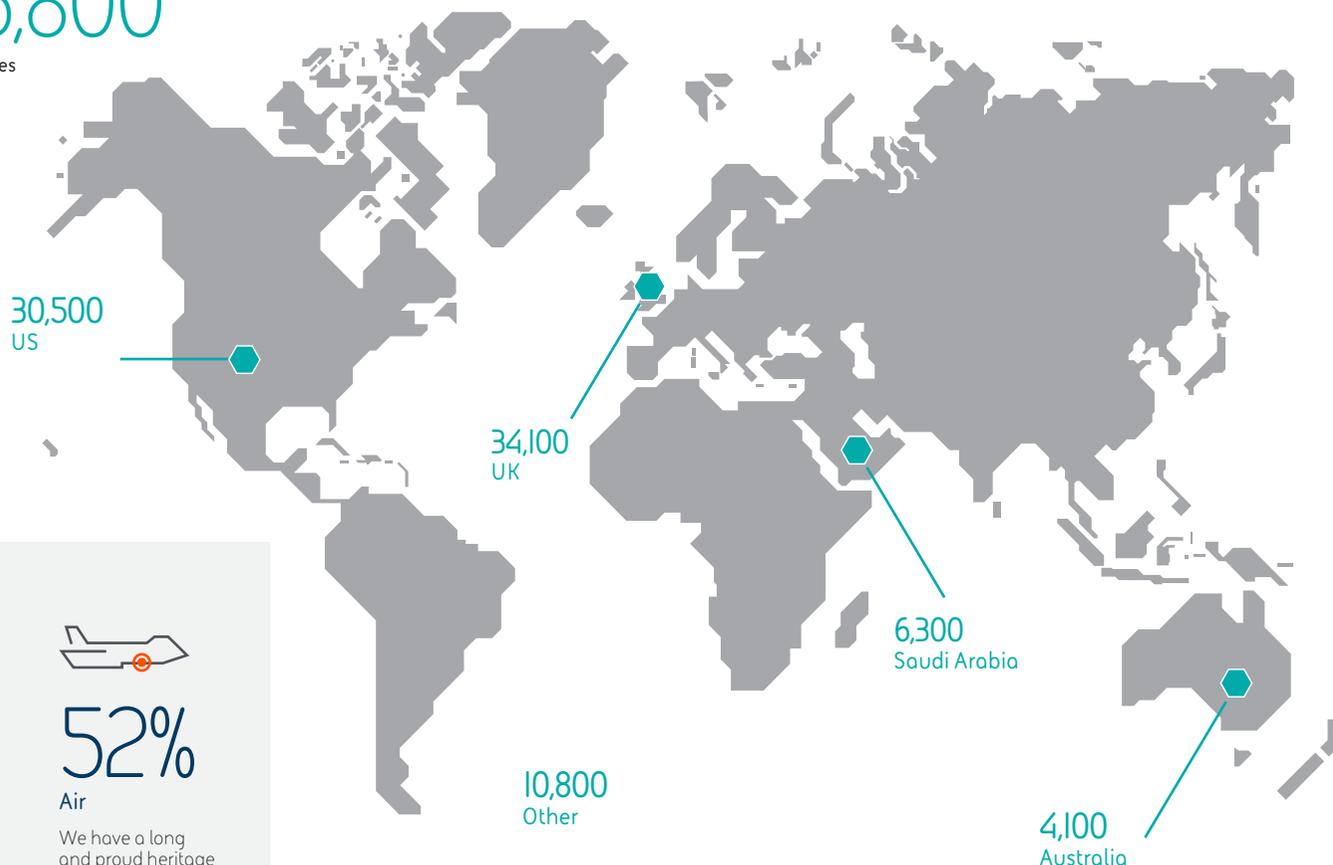
Our key market strategy builds on significant local capability and footprint, often through mutually beneficial partnerships with investment in local businesses. Through the sharing of skills and technologies we help provide sustainable employment for local people.

We are focused on providing a vital advantage to our customers across the US, UK and international markets to protect what matters most.

Employees by location

85,800¹

Employees



Sales by domain²



5%

Cyber

We are a leading supplier of cyber, intelligence and security capabilities to government agencies, and a growing supplier of cyber and network security capabilities to commercial customers.



17%

Land

We design, manufacture, upgrade, and support combat vehicles and provide ammunition, precision munitions, artillery systems and missile launchers to a global customer base.



26%

Maritime

We design, manufacture, and support complex surface ships, submarines, torpedoes, radars, and command and combat systems. We also provide ship repair, maintenance and upgrade services.



52%

Air

We have a long and proud heritage in the development, manufacture, upgrade and support of world-leading combat and fast jet trainer aircraft.

1. Including share of equity accounted investments.
 2. Revenue plus the Group's share of revenue of equity accounted investments.

Chief Executive's review

This summary sets out our performance and approach in seven key areas of corporate responsibility. It is an important element of our commitment to open and honest dialogue with our stakeholders, and we welcome comments and feedback to help improve the quality of our reporting and performance.



Our approach to corporate responsibility recognises that meeting and exceeding the expectations of all our stakeholders is not only the right thing to do, it is also critical to the long-term success of our business, and the important role we play in helping our customers keep people and nations safe in an uncertain world.

Our commitment to responsible and ethical business underpins our reputation for being trusted and reliable. Our success depends on maintaining the standard of conduct that our customers, shareholders, partners and colleagues expect.

The health and safety of our employees has always been, and continues to be our highest priority. We are saddened to report that an accident on 11 June of last year at our facility in Radford, US resulted in one fatality and injuries to two employees. We will continue to place a strong focus on reducing risk and embedding a strong safety culture to drive improvements.

We recognise that our impact, influence and responsibilities extend beyond our site boundaries. We work extensively with others to promote STEM in education, partner with our supply chain and engage with our local communities on issues important to them. We are proud of the progress we are making but know that we must always seek to progress. We look forward to engaging with our stakeholders across many different areas to help us achieve this.



Charles Woodburn
Chief Executive



Corporate Responsibility Committee Chairman's review



I am pleased to endorse the annual summary of the Corporate Responsibility activity undertaken by the Company. As Chair of the CR Committee I can confirm that the Company continues to progress across all key aspects of its CR agenda and proactively seeks to identify risks and manage impacts.

The CR Committee provides oversight and governance across the full range of the Company's CR agenda which focuses not just on core areas of safety, ethics and responsible business conduct, but now extends to diversity and inclusion, stakeholder and employee engagement and supplier conduct.

In 2019, we will continue to focus on these key areas and in addition we will look more closely at workforce engagement in the first year of implementation of the new UK Corporate Governance Code. We will also continue to develop our understanding of the environmental agenda for the Company as wider market practice around targets and reporting continues to develop.



Ian Tyler
Chairman
Corporate Responsibility Committee



The big picture

We are one of the world's leading defence, aerospace and security companies.

This global footprint and wide range of product and services means that our markets are subject to significant shifts in geopolitics, cyber and engineering technology, public spending and security priorities.

We monitor and respond to these changes as part of our business operations and lead on developments in, for example, the rapidly moving area of cybercrime and intelligence.

Technology shifts – cybercrime, big data and social media



The issue

It is estimated that criminal data breaches will cost businesses a total of \$8 trillion by 2022, due to higher levels of Internet connectivity and inadequate enterprise wide security (Juniper Research – The Future of Cybercrime & Security: Enterprise Threats & Mitigation 2017-2022). Ransomware attacks and massive data breaches, supply chain threats and fake news stories are all increasing in prominence. Indeed, five billion personal data breaches are likely to occur by 2020, increasing the need for personal security software. 98% of the world's population are now social media users with Facebook and YouTube continuing to dominate the market (Global Web Index – Flagship Report 2018).

Our response

BAE Systems Applied Intelligence take the techniques, analytics and intelligence systems developed for governments into the corporate world via our military class protection systems. Our e-mail security products, for example, prevent data loss, monitor compliance or provide secure communications and encryption.

We are seeing a significant growth in demand for these services and expertise and are recruiting accordingly. For example, 179 of the 328 graduates that were recruited into our UK businesses in 2018 joined our Applied Intelligence business. This same expertise is applied to our own networks in order to protect our business and employee information. One way we do this is to classify data into four levels from general information to highly sensitive data. Our Company Marking Standard specifies how the data should be handled, which restrictions apply and if it's subject to Government Security Classifications or legislation.

Link to Principal Risks¹

[9. Information Technology Security](#)

1. Our Principal Risks can be found in our 2018 Annual Report pages 68-71.

The big picture continued

Rapid urbanisation and demographic shift

The issue

The rapid increase in size of urban areas continues to be an issue for large companies both in terms of providing a varying workforce, but also in terms of infrastructure, housing, energy and in some countries, access to clean water. The UN now predicts that 65% of the world's population will reside in cities in 2050 greatly exacerbating the impacts we are already starting to see (2018 Revision of World Urbanization Prospects, UN Department of Economic and Social Affairs).

Alongside urbanisation, we are seeing significant shifts in age demographics, with the number of people aged 60 or over expected to reach two billion by 2050 (from 606 million in 2000). The proportion of older people in less developed countries will be smaller than in developed economies (World Employment and Social Outlook – Trends 2015, ILO). These issues have far reaching consequences for governments and international businesses and for BAE Systems connects into other megatrends such as security.



0.5%

While cities occupy only 0.5% of the world's land surface...

75%

...they consume 75% of its natural resources

Our response

Significant changes to population distribution and demographics influence our recruitment, retention, diversity and skills strategies. As a global business, we have opportunities to access new talent across our main markets. For example, we work with education providers across the world to promote study and career choices in Science, Technology, Engineering and Mathematics (STEM). We also invest a great deal of energy in diversity and inclusion in order to attract people from a wide range of backgrounds, cultures, beliefs and capabilities – crucial in a global business context.

Link to Principal Risks¹

- 8. Pension Funding
- 10. People

1. Our Principal Risks can be found in our 2018 Annual Report pages 68-71.

Security and insecurity

The issue

In 2017, there were 49 active armed conflicts in the world leading to 69,000 fatalities, a reduction of 88,000 from 2016 (Peace Research Institute Oslo – Trends in Armed Conflict 1946 – 2017). This picture continually changes in line with geopolitics, social and ethnic tensions, environmental factors and economic stress.

Our response

Our defence exports are subject to strict regulations and are approved by relevant governments, and we require all of our employees to uphold strict ethical standards.

Our internal systems are designed to ensure that we are working with responsible customers, suppliers and partners. Key guidelines include our Operational Framework, Product Trading Policy, Responsible Trading Principles, Pursuit of Export Opportunities, Export Control, Procurement and Commercial policies and our Supplier Principles – Guidance for Responsible Business.

Link to Principal Risks¹

- 1. Defence Spending
- 3. International Markets
- 5. Laws and Regulations
- 9. Information Technology Security

The big picture continued

Changing patterns of extreme weather and natural disasters

The issue

The 2018 World Meteorological Organisation statement of state of the Global Climate indicates that the past four years were the warmest on record, with the global average surface temperature in 2018 approximately 1 °C above the pre-industrial baseline. The recent Intergovernmental Panel on Climate Change (IPCC) special report on the impacts of global warming found that limiting global warming to 1.5 °C will require rapid and far-reaching transitions in land, energy, industry, buildings, transport, and cities requiring us, and all organisations and governments to reduce the carbon emissions of our operations and our products. It also means that our products must be able to operate effectively in extreme environments (those affected by desertification for example).

Our response

We are committed to reducing the environmental impact of our operations where possible and our product development lifecycle is designed to ensure that products are designed to be environmentally efficient, in line with customer requirements. Our business continuity and resilience programmes account for extremes of weather and natural disasters.

Link to Principal Risks¹

1. Defence Spending

9. Information Technology Security

1. Our Principal Risks can be found in our 2018 Annual Report pages 68-71.

Stakeholder expectations of ethics and governance

The issue

Stakeholder expectations continue to be high with questions regarding ethics and governance asked of large businesses, as well as the contribution they make to society. The new UK Corporate Governance Code and the EU Non-Financial Reporting Directive have both increased this spotlight and provided an additional opportunity for stakeholder engagement.

Our response

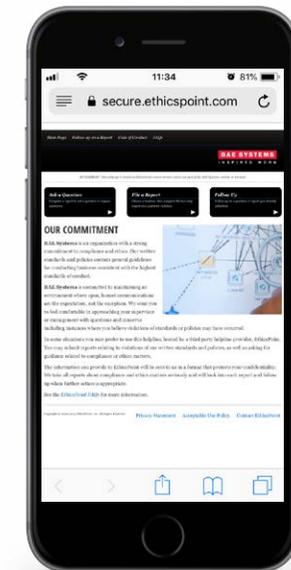
Our Operational Framework requires all of our employees to meet high standards of ethical behaviour. This is supported by our Code of Conduct, plus mandated policies and processes.

Our employees and the Board are trained in the Code of Conduct. Our 24/7 Ethics Helpline and Ethics Officers ensure that everyone understands how to raise concerns, the process for doing so and that they will be taken seriously. We set our expectations for suppliers within our Supplier Principles – Guidance and Responsible Business which drives standards in ethical conduct, health and safety, environment and human rights. We have published our annual update to the UK Modern Slavery Act, as well as our actions in relation to non-financial reporting in our Annual Report and CR Summary. See Stakeholder engagement on page 11.

Link to Principal Risks¹

5. Laws and Regulations

10. People



Materiality

Deciding what matters

Our Corporate Responsibility (CR) programme is fundamental to the success of our business.

It's a key part of our core business strategy and it is therefore driven from the top with input from a wide range of stakeholders. When we think about what's material we consider how our CR will drive success and implement appropriate programmes to meet these requirements.

An example of which is the Accelerating our performance area (page 22) which focuses on how we engage, reward and retain our employees across the business.

Our Group Board of Directors is supported by our Board CR Committee to set and review our responsible business priorities.

These are under the broad areas of safety and wellbeing, trust and integrity, accelerating our performance, responsible procurement, resource efficiency and community investment.

In addition this year we have reviewed how our business contributes to the UN Sustainable Development Goals and have included this information within this report.

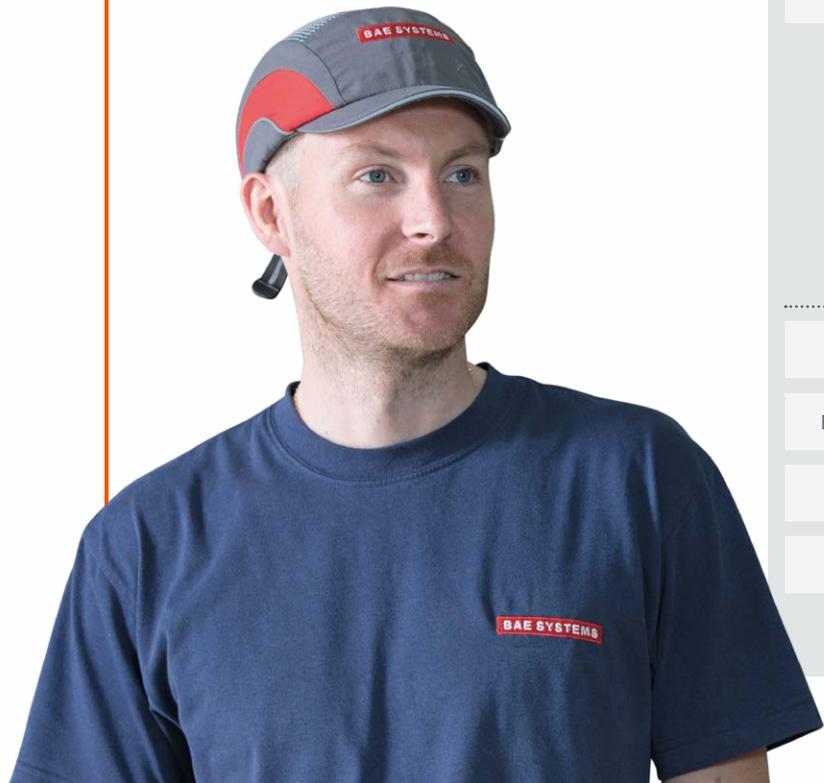
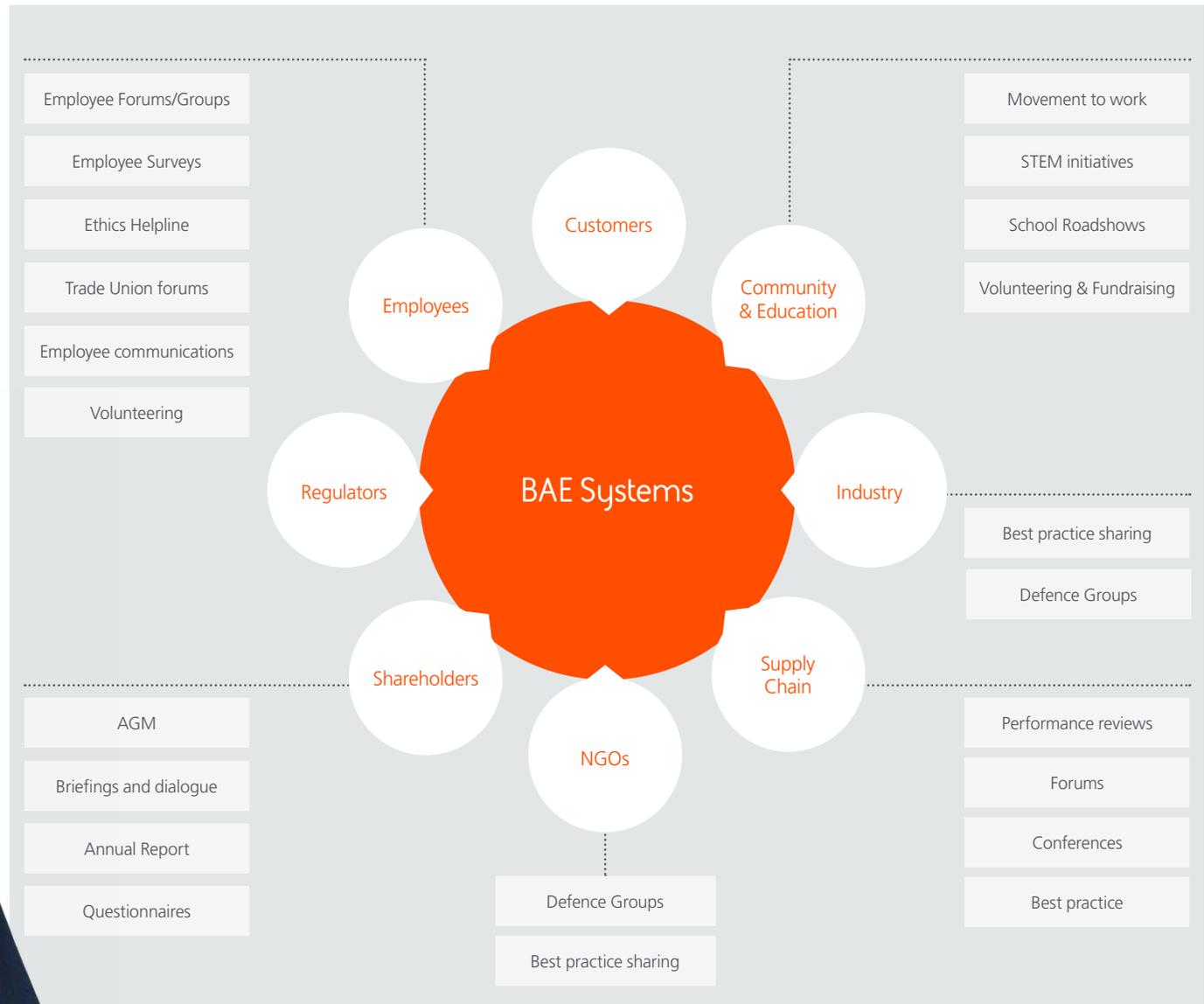
Our business units and operational sites can devise their own ways of addressing CR priorities, taking approaches that are innovative and relevant to local conditions. We report on the progress they have made in this report.



Stakeholder engagement

We regularly engage with our stakeholders to ensure we are addressing all relevant CR-related issues.

We listen and inform in equal measure through formal mechanisms and ongoing dialogue, always conscious of the need to find a balance between transparency and confidentiality. The table outlines a sample of our stakeholders, and some examples of areas of interest.



Strategy

Our business strategy informs the way that we do business. Our CR programme supports our whole business and provides a framework on how we do business.



Our approach to the UN Sustainable Development Goals

As an organisation we recognise the importance of sustainable development in ensuring that we can maintain operability, competitiveness and effective management of future business opportunities alongside understanding our impact on the wider community.

The UN Sustainable Development Goals (SDGs) provide a framework for development and address the challenges that the global population faces, from tackling climate change and environmental risks through to managing societal needs and building economic growth. Together the goals also contribute substantially to the realisation of human rights.

We recognise that we can have a significant contribution towards the SDGs and our active commitment towards the following goals falls in line with our current strategic goals and priorities:



Corporate responsibility governance

We are guided by our company values in everything we do and recognise it is not just what we do, but how we do it that ensures long-term sustainable business performance. These underpin how we govern CR.

Our values

Trusted is...

- Being committed – giving our best every day
- Doing what we say we will
- Doing the right thing

Innovative is...

- Being curious – seeking out new ways to make things better
- Learning constantly – from successes and failures
- Turning ideas into actions

Bold is...

- Being courageous – speaking up, stepping forward
- Seizing opportunities
- Realising big ambitions

Governance and assurance

At BAE Systems CR is integrated into our business strategy and therefore the governance around it is the same as for the whole business. We take a robust and rigorous approach to the governance and assurance of all our operational activity. This is described in our Operational Framework which details the accountabilities of the Board of Directors, the Chief Executive, Executive Committee and other key roles. It also encompasses all of our corporate mandated policies and processes.

We monitor the compliance with our policies through an Assurance Statement every six months. We also complete a risk register to update the key financial and non-financial risks for each business. The local operating procedures and standards are detailed in a Business Management System for each business.

It's important to us that all employees understand how we govern our business and what behaviours and conduct is expected of them. Our Code of Conduct is the key way we do this. It also provides guidance on day-to-day situations they might encounter as well as signposting on for further information.



Read more online
www.baesystems.com/en/our-company/about-us/our-culture

The policies and guidance specific to our CR agenda are identified below.

Area of our business	Group-wide policies
Safety and wellbeing	Health and Safety Policy
Trust and integrity	Appointment of Advisers, Gifts and Hospitality, Conflict of Interest, Facilitation Payments, Export Control, Offset, Lobbying, Political Donations and other Political Activity, Pursuit of Export Opportunities Policies
Accelerating our performance	People Policy
Resource efficiency	Environmental Policy
Community investment	Community Investment Policy
Product stewardship	Health and Safety, Environmental, Product Trading, Quality and Product Safety Policies
Responsible procurement	Procurement Policy and Supplier Principles – Guidance for Responsible Business

Corporate responsibility governance continued

Governance structure

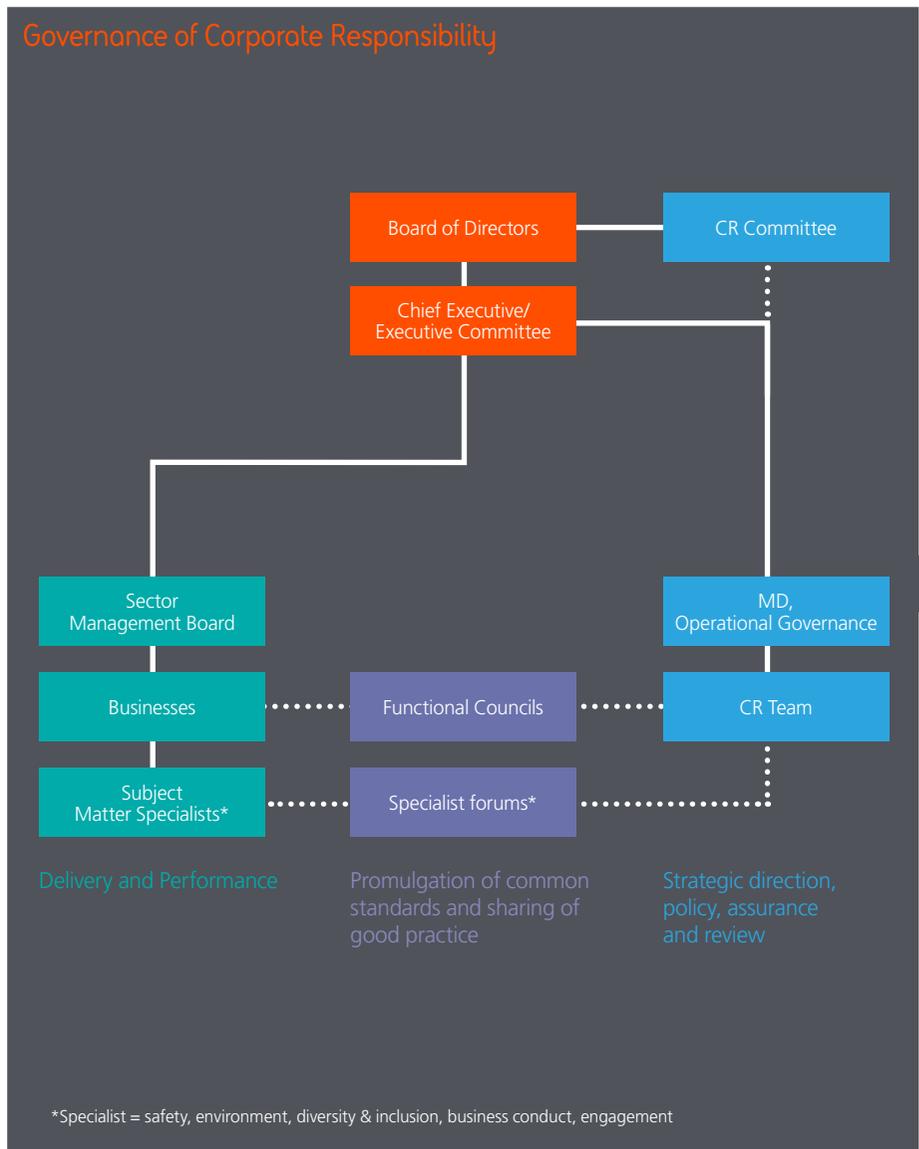
Our Chief Executive has primary responsibility for delivery of the Operational Framework and upholding the standards set out within our Code of Conduct. He is supported on CR matters by the Managing Director of Operational Governance and the CR Team who advise on CR strategy and direction and liaise with the businesses teams to ensure delivery.

Our Board CR Committee is dedicated to the oversight of the Company's performance in this area. It meets quarterly and comprises four non-executive directors and is also attended by the Chairman, Chief Executive, Group General Counsel, Group Audit Director and Managing Director of Operational Governance.

In 2018, the Committee focused on the following:

- A review of the safety metrics in each of our businesses;
- Understanding the aspiration and direction of the Company in relation to diversity and inclusion and the activity to be undertaken to ensure an inclusive, engaged and diverse workforce;
- Continued oversight on the adherence to the CR related policies and a detailed review of the Adviser policy in relation to adviser appointments, the work that they do and their commercial arrangements;
- A deep dive site visit to India and other market reviews;
- An understanding of how well the responsible procurement supplier guidelines are embedded within our supply chain;
- A review of the employee culture survey; and
- Going forward the CR Committee will oversee workforce engagement as required by the UK Corporate Governance Code.

Governance of Corporate Responsibility



*Specialist = safety, environment, diversity & inclusion, business conduct, engagement

Group-wide policies and processes include, but are not limited to:

- Operational Framework
- Global Policies and Guidance
- Code of Conduct
- Risk Management Framework
- Operational Assurance Statement
- CEO Business Review
- Quarterly Business Review

Internal Audit

Business Management Systems

2018 Review

This section describes performance across seven key areas of our business.

Safety and wellbeing	17
Trust and integrity	19
Accelerating our performance	22
Resource efficiency	28
Community investment	31
Product stewardship	33
Responsible procurement	36



MEMBER OF
Dow Jones Sustainability Indices
 In Collaboration with RobecoSAM

Safety and wellbeing

Our employees take on some of the world's most challenging engineering and technology projects. Workplace safety and wellbeing is of fundamental importance.

Our approach

Our approach is shaped by the many and varied safety risks across the Group's operations. Although some of these are specific to the nature of the business such as explosion risk associated with munitions manufacture, the majority are common risks across many of our sites. These include slips, trips and falls, falls from height, work in confined spaces and machining operations.

Our governance of this area is necessarily strong and supports our commitment to making sure people leave safely at the end of each day. We aim to mitigate or manage safety risks by finding new ways to enhance safety standards, increase awareness and continually drive a strong safety culture where our employees continuously seek to improve the working environment.

All of our businesses operate safety management systems and many are externally accredited to the OHSAS¹ 18001 standard.

These systems identify and control risk and are used to assure that the processes and procedures are protecting our people and others who may be affected by our operations. We employ teams of specialists to assist in ensuring that these safety management systems are effective and that the control of risk is maintained. Due to the importance of safety to our Company, the Board set a specific objective which is linked to the Executive bonus award. There are three elements of the objectives: a reduction in the level of significant risk; improvement in safety culture; and targeted improvements against key safety indicators including a reduction in recordable injuries.

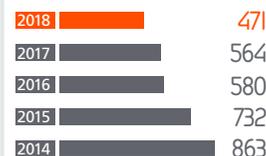
There was a 16% decrease in the Recordable Accident Rate. The overall number of major injuries recorded increased to 37 compared with 28 in 2017, and sadly, an accident on 11 June in a facility in Radford resulted in one fatality and injuries to two employees. The health and safety of our employees has always been and continues to be our highest priority.

16%

reduction in the Recordable Accident Rate

Recordable Accident Rate (per 100,000 employees)²

KPI
BONUS



Case study

Providing clean air

The health and safety of our employees is paramount and our policies cover a wide range of eventualities from accidental slips, trips and falls to working with hazardous materials.

Our policies also incorporate the requirements of working conditions in the many world-wide locations in which BAE Systems personnel operate. For example, in New Delhi we added temporary and portable air purifiers to our offices to help try and combat the effects of high air pollution in the city whilst organising permanent relocation to purpose-built premises with modern air handling equipment. The office move was completed at the end of 2018 and the now redundant portable air purifiers have been distributed to employees for use in their own homes.

2018 priorities

Continue to drive towards a world-class level of safety performance, continue to focus on the management and reduction of safety risk and drive a strong safety culture through communication, awareness and visible leadership.

We will target a 10% reduction in the Recordable Accident Rate.

2018 progress

Our Recordable Accident Rate² in 2018 was 471 per 100,000 employees, compared to 564 in 2017 and 580 in 2016.

There was a 16% reduction in the Recordable Accident Rate.

The number of major injuries^{2,3} was 37 in 2018, compared to 28 in 2017 and 39 in 2016.

2019 direction

Achieve world-class safety performance.

Improve management and reduction of safety risk.

Improve safety culture and leadership.

Target a 10% reduction in the Recordable Accident Rate.

Major injuries recorded^{2,3}

BONUS



5% of the UK executive directors' bonuses are based on the achievement of safety KPIs.



1. Occupational Health and Safety Assessment Series.
 2. See Deloitte LLP Assurance Statement at www.baesystems.com/deloitteassurancstatement
 3. The definition of a major injury was updated in 2017 to more closely align with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2014.

Safety and wellbeing continued

Wellbeing at work

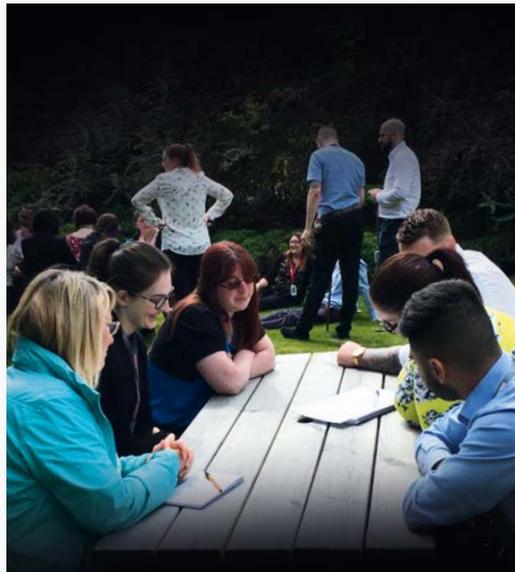
We recognise that there are many aspects which contribute to employee wellbeing. Some of these are physical and we undertake a wide range of occupational workplace assessments. Our sites also encourage employees to focus on physical wellbeing through provision of gym facilities, healthy eating campaigns and introducing local events such as 'Couch to 5k'.

We recognise that the workplace environment and policies can contribute to a sense of wellbeing and offer flexible working policies to allow employees to balance different aspects of their life.

Equally important is ensuring a workplace where employees feel valued for who they are and what they contribute as an individual and we place a strong emphasis on an inclusive workplace environment.

Our Employee Assistance Programme (EAP) provides free confidential advice on a range of subjects, from emotional to legal and financial issues. This service is available to employees and their families.

In 2018 a number of our businesses have focused on raising awareness and understanding of mental health issues. We are intending to extend this through 2019. In the UK, we have established a mental health support group that provides an enhanced awareness and understanding of mental health issues. It meets on a monthly basis and is an opportunity for people to share their thoughts and experiences in a supportive environment.



Case study

Mental health first aider

Mental health problems can affect anyone. We've trained a number of people in the UK to become mental health first aiders (MHFA) to provide first line support.

Our mental health first aiders have been trained by MHFA England to be able to help our employees who have concerns relating to their mental health. They are on hand to spot early signs of mental health problems, have supportive conversations and signpost on to other services as appropriate. This vital role helps with early intervention which is so critical when people are facing such issues. The MHFAs don't take notes and keep the information they hear confidential. We make sure they look after themselves too via support groups and access to the Employee Assistance Programme. We're determined that employees know where to turn for help and encourage others to become MHFAs too.

Case study

Recognition for our achievements

We aim for world-class health and safety processes and strive to be a zero-harm organisation. That's why we were very proud that two of our sites in the UK, Washington and Ridsdale, secured prestigious Health and Safety awards by the Royal Society for the Prevention of Accidents (RoSPA) this year. This was in recognition of the Company's practices and achievements in helping employees, contractors and customers leave safely at the end of each working day.

Our Washington, Tyne and Wear, site is an advanced engineering and manufacturing facility which produces ammunition parts, so safety is vital for both employees and its main customer, the British Army. The Washington site was announced Winner of the RoSPA National Defence Sector Award. Our Ridsdale Range site that tests and evaluates military equipment was also Commended in this category.

The RoSPA Awards scheme, which receives entries from organisations around the world, recognises achievement in health and safety management systems, including practices such as leadership and workforce involvement.



Trust and integrity

We want our employees and stakeholders to take pride in what we do and how we do it so that we can be a leader in responsible business conduct. That's why we work hard to embed rigorous ethical standards across the Group.

Our approach

It's vital to us that we are a responsible organisation whose employees act with integrity and in accordance with our standards of business conduct. We have embedded a culture with ethical behaviour at the forefront and we support our employees to make the right choice when faced with difficult decisions. Our Code of Conduct is paramount. It was revised in early 2018 to ensure it's up to date with new regulations and policies.

It helps our employees to make the right decisions by providing guidance on day-to-day situations and signposts where they should go with concerns. Employees take annual business conduct training, have access to an Ethics Helpline and a network of over 160 Ethics Officers to whom they can ask advice or raise concerns, anonymously if preferred.

Speaking up

All employees are made aware of the Ethics Helpline which allows them to raise a concern via email, online or a 24/7 multi-lingual phone line. In 2018, there were 1,286¹ ethics enquiries, an increase of 0.5% of the number compared to 2017, and our 2018 anonymity rate of 28% compares favourably with international benchmarks.

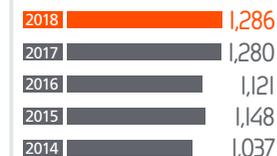
We believe the continued year-on-year increase is a positive trend reflecting the success of our efforts to encourage people to speak up, and we will continue to widely communicate the methods of making contact.

In 2018, 48% of the ethics enquiries received were requests for guidance and advice, which we believe reflects our employees coming to us before a situation has worsened and requires investigation. We encourage employees to contact us as early as possible when a potential incident can still be prevented by timely advice.

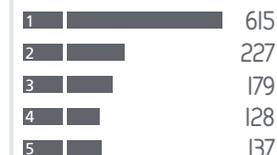
All enquiries requiring any investigation were reviewed and reported either to the Ethics Review Committee or, in BAE Systems Inc., to the Ethics Review Oversight Committee. This process is guided by our Investigations Governance document. In 2018, the most common investigations were related to employee relations and conduct, management practices and accounting practices.

It's vital that our Ethics Officers deliver the best advice and guidance for the business. Supporting this, we hold annual two-day training conferences hosting internal speakers and external experts, one in the UK and one in the US. Throughout the year we provide quarterly update webinars, newsletters and a website to allow sharing of communications material and best practice advice. Each Ethics Officer has a handbook defining their role and providing further thematic support. We have strengthened our ethics teams with additional Ethics Officers in the Middle East and Asia.

Total ethics enquiries¹



2018 ethics enquiries by type¹



- 1 Guidance and advice
- 2 Employee relations and conduct
- 3 Management practices
- 4 Accounting charges practices
- 5 Other

2018 priorities	2018 progress	2019 direction
Roll out the revised Code of Conduct to all employees.	Our revised Code was launched on 1 January 2018.	We will roll out our annual Business Conduct scenario-based training to all employees.
Managers will distribute the Code of Conduct alongside face-to-face, scenario-based training.	Rolled out face-to-face Business Conduct Training. Delivered by line managers, the training stimulates conversations about difficult issues in the workplace. More than 90% of employees completed face-to-face Business Conduct Training and briefed on the updated Code. Additional training provided to employees in key roles.	We will review our approach to Ethics and Compliance training, looking to further improve engagement and interactivity.

28%

Anonymity rate.

48%

Of ethics enquiries received were requests for guidance and advice.

1. See Deloitte LLP Assurance Statement at www.baesystems.com/deloitteassurancestatement

Trust and integrity continued

Case study

Promoting speaking up: a real-life example

A senior manager had gained a reputation for setting his team up to fail. He would often set his team unreachable targets. A number of team members felt pressured to deliver on projects that they weren't equipped to achieve or didn't have the time to complete. It was not uncommon for the manager to pick individuals out in weekly team meetings, asking where the work was for projects they had never been briefed on. It had also not gone unnoticed by the team that he frequently made unwelcome comments on the way female members of the office were dressed.

The Ethics Helpline received multiple complaints and an investigation was launched. The investigation substantiated the allegations of bullying. The matter was then dealt with under the UK Disciplinary Procedure which concluded that the bullying behaviour (together with the behaviour towards the female members of his team), constituted gross misconduct. The manager was dismissed, with the team being supported throughout the process.

We learn from the types of concerns raised and advice given by Ethics Officers and through the Ethics Helpline. Many of our businesses request further information on trends and analysis of the underlying causes of concerns.

For each business we provide a dashboard showing the number of cases per 1,000 employees, tracked over time, providing the anonymity rates and the number of approaches to Ethics Officers and the Ethics Helpline. The businesses also receive heat maps combining ethics cases, safety data, disciplinary actions and grievance cases, giving a location-by-location health check.

Anonymity rates are a good indicator of employee sentiment, for example, businesses with higher anonymity rates indicate a need to address concerns about the consequences of public comment.

Both the Executive Committee and the CR Committee review the quarterly outputs of the ethics dashboard. In addition, the Ethics Review Committee (BAE Systems plc) and the Ethics Review Oversight Committee (BAE Systems, Inc.) receive regular updates.

Appointment of Advisers

At BAE Systems we have policies and procedures in place to govern the appointment of advisers who provide external advice and support on a range of sales and marketing activities or the strategic development of the Group. Advisers appointed under those procedures are required to be assessed and approved by our Business Development Adviser Panel upon initial appointment, and then every two years thereafter.

Export Compliance

BAE Systems is committed to maintaining an effective system of compliance to ensure that the Company operates in accordance with all relevant export control laws and regulations in the various jurisdictions in which it does business. The Company has robust policies and procedures in place specifically to comply with relevant laws and regulations governing export controls. The Company's procedures require that the necessary government authorisations are obtained prior to engaging in the supply of controlled goods, information and/or services.

Case study

IFBEC



Our industry body for ethics, the International Forum on Business Ethical Conduct (IFBEC), has appointed BAE Systems' Head of Ethical Business Conduct Dominic Hall as Chairman.

IFBEC, an association of the major US and European defence manufacturers, was set up to provide a global response to issues affecting the industry as a whole. All members are required to comply with a set of principles (such as eliminating facilitation payments and appropriate payment of advisers), and membership is a key way for defence organisations to show a public commitment to upholding ethics.

BAE Systems was a co-founder of IFBEC and played a part in developing the Principles with Lord Robertson, the then UK defence minister.

With Dominic sitting on the steering committee for the past two years and working closely with the NATO integrity programme, he was a natural fit to succeed VP Business Ethics and Compliance at Raytheon, Tim Schultz, for the Chairmanship. On the announcement of his appointment Dominic said:

"I'm delighted to become Chairman of IFBEC for the next two years. Since its inception IFBEC has provided a forum for the major defence companies to improve their ethical standards. I look forward to helping to raise the bar of best practice even further, right across the industry. I'm thrilled to have a US industry partner Courtney Wallize from Northrop Grumman working alongside me as Vice Chair."



Dismissals for reasons relating to unethical behaviour²



2. Verified by BAE Systems Internal Audit.

Trust and integrity continued

Human Rights

We are committed to respecting human rights. This applies equally to our employees, our suppliers and business partners, all of whom are expected to adopt the same or similarly high standards of ethical behaviour. We are committed to conducting business responsibly and to maintaining and improving systems and processes to reduce the risk of slavery and human trafficking in our business or supply chain. Human rights is not flagged as a principal risk in our business, however we remain vigilant of the risks to modern slavery within the following areas of our business – recruitment practices and people policy, procurement processes and supply chain, and supplier selection process.

We publish our response to the UK Modern Slavery Act each year.

To comply with regulations for our US business, we have also published a response to the California Transparency in Supply Chain Act.

Offset arrangements

Offset arrangements generally relate to export opportunities. They are designed to create employment, generate capability and/or add economic value in the relevant territory. Many countries have published offset regulations, which often form key criteria for the award of defence contracts. We have offset commitments in a number of countries and through these programmes we seek to support customers' economic and development goals, and deliver long-term sustainable benefits.



→ Read more online
www.baesystems.com/en/our-company/corporate-responsibility/useful-links/modern-slavery-act-statement

Public Policy and Lobbying

BAE Systems engages in lobbying activities in the countries in which it operates in order to communicate with, and inform, legislators and government decision makers on matters relating to our business. Through our policy we ensure that anyone engaged in lobbying activities on behalf of BAE Systems conducts themselves in a way that conforms with our standards of responsible business conduct. BAE Systems does not make corporate contributions or donations to political parties.

Employees in the US can contribute to the BAE Systems Political Action Committee, which operates in accordance with US Federal law. All government focused lobbying is summarised and reported annually to the CR Committee.

Further information on our approach to lobbying can be found here

→ www.baesystems.com/en/our-company/corporate-responsibility/useful-links/policy-summaries/lobbying-political-donations-and-other-political-activity

Taxation

Our Group tax strategy states that we:

- Ensure compliance with all applicable laws and regulations; and
- Manage tax expense consistent with our values and legal obligations in all relevant jurisdictions.

The Group does not tolerate activities designed to facilitate tax evasion offences.



Accelerating our performance

Focusing on recruiting and retaining the best people from the widest possible talent pool is essential to our vision to be the premier international defence, aerospace and security company.

2018 priorities	2018 progress	2019 direction
<ul style="list-style-type: none"> All markets to continue to drive a diversity and inclusion (D&I) agenda to address business needs and strategic aims. 	<ul style="list-style-type: none"> D&I Leads, Enterprise, and Local D&I Councils, Steering Groups and Working Groups in place across most of the company, with established plans to improve governance during 2019 and 2020. Recognised as a disability and LGBTQ+ employer of choice on the Disability Equality Index and Corporate Equality Index in the US for the second consecutive year. Focused on diversity in the pipeline including Indigenous STEM student tours in Australia, recruiting at outreach associations representing diverse engineers in the US and engaging with girls and young women in schools and communities through more than 200 events in the UK. Supported several regional initiatives including the Women Empowerment Committee in Saudi Arabia. 	<ul style="list-style-type: none"> We will increase leadership accountability for diversity, inclusion and engagement/employee experience. We have introduced a refreshed set of Company behaviours to support an inclusive, future-focused working environment in which everyone can give their best. We will seek to increase the percentage of women in senior roles and measure increased representation through our talent pipeline. To enable better understanding of the current diversity of our employee population and support effective progress and measurement, we will engage with employees to encourage an increase in self-identification on our employee platforms. We will review our policies, processes and procedures to ensure they are inclusive, do not adversely impact under-represented groups and leverage the best talent for now and for the future. We will continue to generate awareness of what D&I means for BAE Systems and its employees and the importance of attracting and retaining diverse talent.

Our approach

We value our 85,800¹ employees and the contribution they make, and we are committed to creating an inclusive culture where everyone can be their best. This is essential if we are to attract and retain talented people, and drive creativity, innovation and our ability to solve our customers' complex challenges. Our customer base is diverse and our footprint is global, and this should be mirrored in our workforce now and in the future.

The Group's business strategy is dependent on its ability to ensure we have the right talent and capability, in the right roles at the right time. Our People and Talent Strategy prioritises identifying, attracting and developing talent through robust succession planning as well as engaging and rewarding employees.

Our People Policy sets out our people management expectations, including with regard to D&I, training and development, reward and employee engagement.

Creating an inclusive environment with a diverse workforce is everyone's responsibility and we include clear guidance on what this means to us in our Code of Conduct.



1. Including share of equity accounted investments.

Accelerating our performance continued

Diversity and Inclusion

For BAE Systems, creating a diverse and inclusive workplace is not just the right thing to do – we believe it underpins our performance and productivity. In order to maintain our competitive edge and meet our customers' growing demand for bold, innovative products and services, we need to attract and retain the best talent from the widest pool of potential candidates.

It is vital that commitment to our long-term approach to D&I comes from the very top of the organisation. In line with this, D&I is a standing agenda item at every Executive Committee meeting.

Our markets are tasked with developing strategies and programmes that support these priorities and implementing accountability measures to track progress and drive commitment. Across the Company we have many local D&I Councils and Working Groups. Our D&I leads share information through regular calls with representation from Australia, Saudi Arabia, the UK and US.

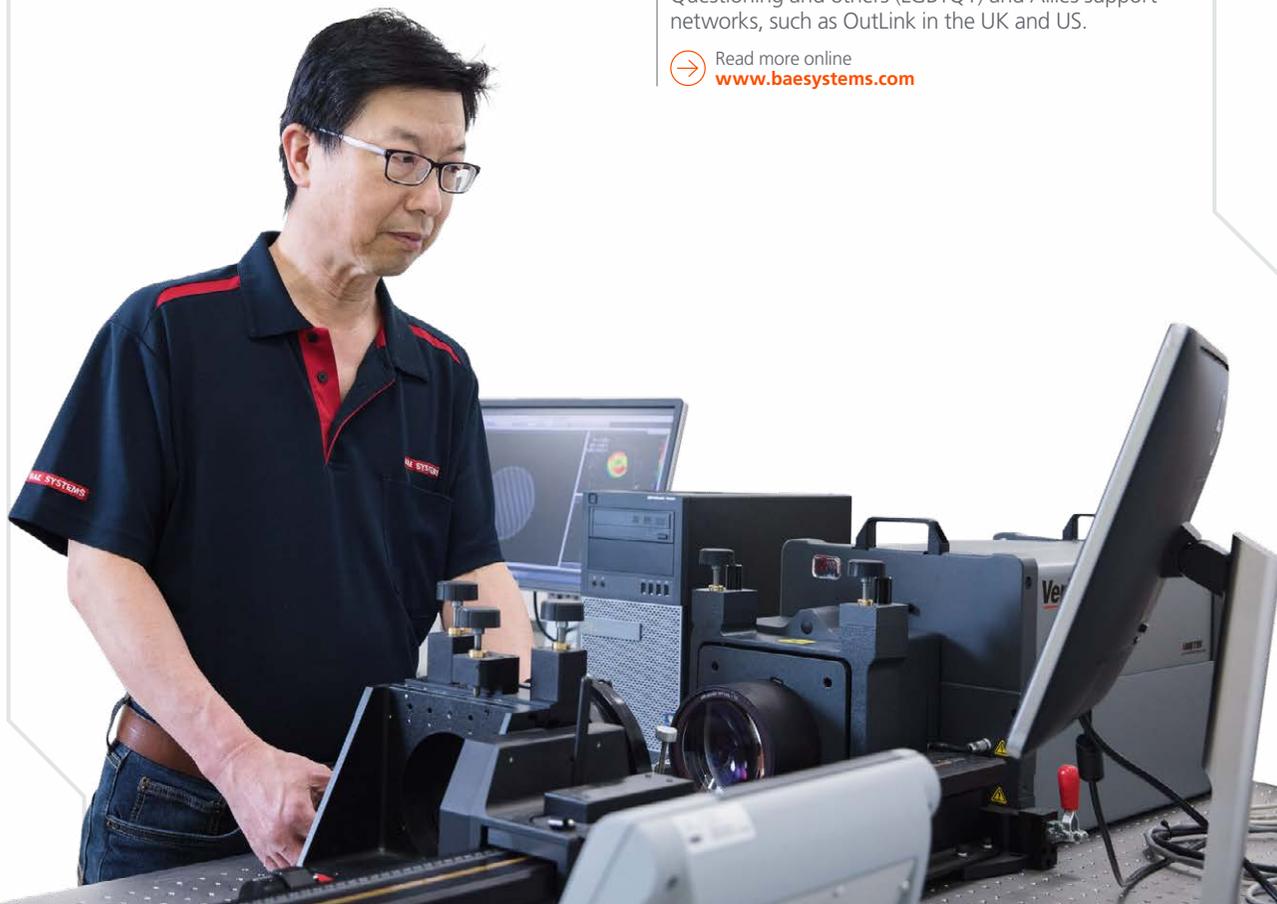
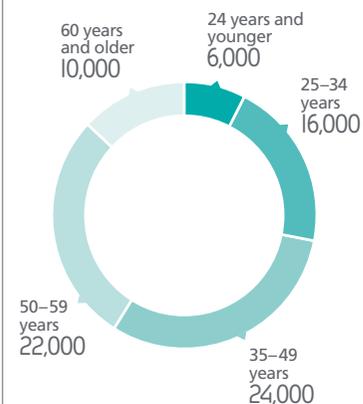
We have Employee Resource Groups and networks including those for women, veterans and people with disabilities and caring responsibilities. We also have employee-led Lesbian, Gay, Bisexual, Transgender, Questioning and others (LGBTQ+) and Allies support networks, such as OutLink in the UK and US.

➔ Read more online www.baesystems.com

50

BAE Systems was one of the 50 founding signatories of the 'Women in Aviation and Aerospace Charter' that was launched at Farnborough Air Show in July 2018.

Age diversity^{3,4}



3. Excluding share of equity accounted investments and rounded to the nearest thousand employees.
 4. See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement

Accelerating our performance continued

Gender pay gap

We have published our second annual gender pay gap report in line with UK regulations. For 2018, the average gender pay gap for our UK workforce was 9.0% (2017 11.2%), which is lower than the current UK national average of 17.9%. We have a gender pay gap because we employ around four times more men than women and a greater proportion of our senior leadership population is male. We rely on employing large numbers of employees with STEM qualifications and we, like other companies, face challenges recruiting females with these qualifications because there are significantly fewer women who study and work in these fields.

Gender diversity

Within our Early Careers work, we aspire to have 30% female applications for graduate and apprentice intake in the UK by 2020. Encouraging this diversity within our incoming workforce will differentiate and strengthen us for the future.

We work closely with external organisations to attract more women to join us including: Women in Science and Engineering; Royal Academy of Engineering; International Women of Excellence; Women in Defence UK Awards; and The Diversity Group directory.

BAE Systems was one of the 50 founding signatories of the 'Women in Aviation and Aerospace Charter' that was launched at Farnborough Air Show in July 2018. The Charter commits the UK's aviation and aerospace sector to work together to build a more balanced and fair industry for women. We have also signed the charter for Women in Maritime which likewise pledges to increase the number of women in the sector.

We are determined to bridge the historical gender gap in our industry. We aim to do this by encouraging more young women to enter STEM fields, better recognise the achievements of our women engineers and increase the number of women in senior executive positions. This issue cuts across our whole approach to CR and forms part of our community investment and responsible procurement work.

Gender diversity

	Male	Female
Board	7	4
Senior managers ^{1,2}	276	58
Total employees ^{3,4}	62,000	16,000

Gender diversity^{3,4} (% female workforce)



Read more online www.baesystems.com

1. Senior managers are defined as employees (excluding executive directors) who have responsibility for planning, directing or controlling the activities of the Group or a strategically significant part of the Group and/or who are directors of subsidiary companies.
2. Excludes executive directors.
3. Excluding share of equity accounted investments and rounded to the nearest thousand employees.
4. See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancstatement

Case study

Inspiring female role models



One of our engineers has been hailed as an inspirational role model for young women after being named the Young Woman Engineer of the Year 2018 in the UK.

Sophie Harker, an aerodynamics and performance engineer, collected the award at the Institution of Engineering and Technology (IET) annual awards. She is part of our team which performs aerodynamic and performance analysis on future combat aircraft, as well as exploring hypersonic flight concepts and the application of emerging technologies in aviation.

Speaking after her win, Sophie said: "It feels very surreal – I didn't think I would win! The finalists were all phenomenal so I was completely overwhelmed when they announced my name – it's a very proud moment for me. It's vital we inspire the next generation of engineers, especially young women, and one way of doing this is highlighting talented females already in the industry. These awards are putting role models out there in the public eye to change the perception of engineering and encourage young people to consider STEM careers. I'm looking forward to the year ahead and hope to inspire as many people as possible."

Sophie was congratulated on her success by Prime Minister, Theresa May, along with the winners of the other prizes handed out at the awards hosted by Countdown host, Rachel Riley (pictured above with Sophie).

Accelerating our performance continued

Identifying and recruiting talent

We need to recruit a diverse range of professionals to help solve our customers' challenges, including engineers, designers, software developers and project managers. We look to draw people from a wide range of backgrounds and cultures.

Our recruitment focus is on the next generation to replace the skills and experience we are losing as our ageing workforce retires, to mitigate STEM skills shortages, and to accelerate diversity within our leadership.

We have strong and deep relationships with education providers globally to promote STEM and other subjects. For example, our flagship UK Schools Roadshow, delivered with the Royal Air Force and Royal Navy, engaged more than 420 schools and approximately 120,000 young people in 2018.

BAE Systems also supports Movement to Work, a UK initiative designed to help young unemployed people into work.

Movement to Work

BAE Systems is a founder supporter of Movement to Work, an employer-led initiative to tackle youth unemployment. Every year we provide work experience placements and employability skills training to 98 young people who are not in education, employment or training. So far, we have provided 431 placements and 259 young people have gone on to full employment or further education as a direct result of the programme. Where possible, we link placements to job vacancies or apprenticeships to create sustainable employment – so far 113 people have succeeded in gaining an apprenticeship with BAE Systems. We also encourage our suppliers to sign up to the Movement to Work initiative themselves; helping them to deliver high quality work training opportunities in their own business to provide opportunities for the communities in which they operate.

98

Young people helped who are not in education, employment or training.

113

People have succeeded in gaining an apprenticeship with BAE Systems under the Movement to Work scheme.

Case study

Award winning people

Ahmed Munshi, who works for BAE Systems Air in the UK as a Project Management Apprentice, won the Engineering & Manufacturing Award and Overall Asian Apprentice of the Year Award at the Asian Apprentice Awards in 2018. The Asian Apprentice Awards celebrate the talent and diversity within British Asian communities. Commenting on his awards, Ahmed said: "I am delighted to have won this award and be crowned the winner. It's an amazing feeling to be recognised for doing something I love and something that is setting me up for the future." In addition to this BAE Systems won the Macro Apprentice Employer of the Year Award and the Recruitment Excellence Award at the National Apprenticeship Awards, while our apprentices won Gold, Bronze and Highly Commended Medals at the WorldSkills UK finals.



Case study

Encouraging young talent and fresh ideas



Providing access to working environments for young people is a critical part of our global efforts to inspire and engage people to work in STEM careers.

In the US, the LEAP (Learn, Engage, Apply, Progress) internship programme welcomed more than 125 summer interns in 2018 from a variety of backgrounds and universities to work with us at multiple locations and across a number of programmes and departments. In addition to providing networking opportunities and development webinars, the interns worked in teams to tackle some of our most pressing business challenges. At the end of the programme, the teams presented their recommendations to a panel of senior leaders. Based on the programme's success, LEAP will be expanded in 2019.

BAE Systems is committed to inspire and train the next generation of technical professionals by partnering with local academia involved in STEM programmes.

This year, the BAE Systems Summer STEM Scholar Program, a partnership between our US Electronic Systems business and the University of New Hampshire, provided scholarships to ten students to attend the university's Tech Leaders camp.

Through a separate partnership with Nashua Community College in New Hampshire that Electronic Systems began two years ago, more than 80 attendees graduated from the ten-week 'Microelectronics Boot Camp,' which teaches skills in microelectronics manufacturing. All graduates are invited to an interview with Electronic Systems upon completion of the course, and BAE Systems has hired more than 80% of the programme graduates to date.

Accelerating our performance continued

Training and employee development

We support employee development through our comprehensive career frameworks, development programmes and the breadth of our operations. It's part of wanting every employee to be their best.

In the Kingdom of Saudi Arabia our technical training programmes are recognised for their significant contribution to the economy through the development of sovereign capability. We continually improve the competence of our people, by equipping our production-floor supervisors with the skills to lead growing teams in an advanced technological environment, and encourage skills transfer by deploying over 1,500 expatriates and investing in our local Saudi workforce through a range of overseas assignments.

Our focus on inclusive leadership and professional development throughout our employees' careers supports their personal and professional growth, and ensures that we have the skills to meet our customers' current and future requirements.



Read more online
www.baesystems.com



Case study

Strengthening our support of the LGBTQ+ community

We pride ourselves on creating an environment where all people work without fear of discrimination in any respect and support every employee to reach their full potential. This has never been truer than for our LGBTQ+ community.

We've provided a wealth of information on our new OutLinkUK website, with clear signposts to our D&I champions and useful external organisations. Our LGBTQ+ resource group OutLinkUK, provides support not just to LGBTQ+ employees, but also their colleagues, family and friends e.g. providing safe spaces to help individuals on their journey, and providing education/training across the business. OutLinkUK also works with leaders to help shape and inform policy development such as the Transgender Policy which has been in place for two years to help all employees, managers and leaders engage and support transgender colleagues specifically those transitioning at work.

We enter the Stonewall Equality Index annually to benchmark our performance and gather feedback to improve our processes going forward. From our latest submission, we can see that we need to improve our data collection, policies, procurement process, communications and customer engagement, but that we are doing well in terms of employee networks and role models.

As a public show of our commitment to inclusivity at work, hundreds of colleagues across the UK and across Australia this year supported International day against Homophobia, Biphobia and Transphobia (IDAHOBIT), and we took part in more Pride parades than we have ever done, allowing colleagues to demonstrate their pride in working for the Company.

Employee development and reward

We support our employees to be their best through a structured career plan backed up by comprehensive training and development programmes. Skills transfer is an important part of our strategy, allowing employees to work across the business, building and refreshing their skills. We are continuously seeking new ways in which we can develop our employees. By utilising online and virtual development tools or on the job training through 'stretch projects', we work to ensure training and development opportunities are accessible and inclusive to our employees.

We offer a competitive reward package aligned with responsibilities and performance. We celebrate success through schemes such as the Chairman's Awards. We offer share schemes and retirement plans in a package that is fair and competitive.

Accelerating our performance continued

Employee engagement

Engagement is a primary focus for our leaders and managers – connecting employees to our strategy and purpose, empowering them to contribute to improving business performance and creating an environment in which everyone can fulfil their potential. In 2018, we conducted a Group-wide survey to measure employees' views on key engagement factors and our current ways of working.

The results of this survey will help us to build on our strengths and focus on areas where we can further evolve our ways of working to support future success. We seek to maintain constructive relationships with our trade unions in Australia and the UK, and our labour unions in the US. 55% of our UK employees are members of a Trade Union with 69% covered by a collective bargaining agreement. In the UK, we retain excellent relationships with the main organisations involved and organise regular meetings through our Corporate Consultation Committee. We have agreements with unions and consultative bodies in countries where collective bargaining is standard legal practice, supported by employees.

55%

of our UK employees are members of a Trade Union.

69%

of these are covered by a collective bargaining agreement.

Case study

Our UK special leave policy supports many, including the RNLI

Our special leave policy allows people to commit to taking part in voluntary community activities, often over a long-term period of time.

For Mike Gee, Head of Health and Safety Assurance, the policy meant he was able to fulfil a lifetime ambition of becoming a lifeboat volunteer with the RNLI (Royal National Lifeboat Institution). And he's not the only one, Mike works with three other volunteers from BAE Systems at Warton.

Being a lifeboatman was important to Mike from an early age – and although it's hard work, training in all weathers every Thursday evening and once a month on Sunday, the feeling of achievement when a rescue goes well and the camaraderie is unrivalled.

Mike's lifeboat station, Lytham St Annes, saw a period of change in 2018 requiring a strong commitment from its volunteers, with the arrival of a new Shannon-class lifeboat. Its advanced design allows the crew to arrive at a rescue more quickly and its new sensors and equipment make the operation of the vessel much safer. It's required a lot of commitment, with Mike alone putting in 200 hours of training so that he can fulfil a number of roles on board such as operating the radar, steering the boat or acting as navigator.

On his ability to be supported as a volunteer Mike states: "I am very lucky to work at BAE Systems in that the Company supports me by allowing me to attend emergency calls and training courses away from home without using my annual leave allowance."



I am very lucky to work at BAE Systems in that the Company supports me by allowing me to attend emergency calls and training courses away from home without using my annual leave allowance.

Resource efficiency

Our ongoing commitment to sustainable and efficient use of energy and materials makes sense environmentally and financially.

Our approach

As a major manufacturer, we recognise that our operations have an impact on the environment – from the energy and resources we use to the waste that we generate. We are committed to reducing the environmental impact of our operations and products, minimising our environmental footprint and in turn, decreasing our operational costs.

As owner of the Environmental Policy, the Chief Executive has been assigned overall responsibility for environment, including issues relating to climate change. He is supported by the CR Committee in ensuring that appropriate policies, systems, reporting structures and metrics are in place to achieve the Group’s ethical, social and environmental performance objectives.

Our Environmental Policy outlines our commitment to high standards of environmental management. Environmental performance is reported to our senior management team through the Quarterly Business Review and compliance with the Policy is directed by environmental teams across the Group and monitored through the bi-annual Operational Assurance Statement.

The Policy is supported by our Code of Conduct which reiterates our commitment to environmental management and the need for every employee to contribute to the efficient use of resources and to comply with the relevant practices and policies.

We are committed to reducing our Group environmental impact and each of our business units devises their own ways of achieving this core aim.

Due to differences in geography and function, each business unit sets its own environmental targets which broadly focus on materials resilience, energy and climate change, waste, emissions and discharges.

Strategy

We recognise that environmental and climate risks could directly impact our ability to meet our strategic priorities, namely to continuously improve competitiveness and efficiency. Key aspects which are likely to influence our organisation and future strategic decisions include:

- Constrained supply and volatile prices of fuel and the associated taxes;
- Availability of critical materials;
- Increasing stringency of environmental legislation; and
- Contribution towards UN Sustainable Development Goals.

2018 priorities	2018 progress	2019 direction
<ul style="list-style-type: none"> • We will continue to drive improvements in the management of materials and resources across all businesses. 	<ul style="list-style-type: none"> • Carried out a deep dive into environment, with the aim of highlighting key areas of improvement. • Reduction in greenhouse gas (GHG) emissions across the organisation, resulting from the implementation of targets and environmental initiatives. • Naval Ships received a Globe of Honour Award for Environmental Performance from the British Safety Council. • Recognition of the UN Sustainable Development Goals and how we can contribute towards them. • Environmental considerations incorporated into the recent Naval Ships export bids. 	<ul style="list-style-type: none"> • We will continue to drive improvements in the management of materials and resources across all businesses and will develop our environmental policy further alongside progressing our alignment to the UN Sustainable Development Goals.



Resource efficiency continued

Risk Management

We acknowledge that there are significant environmental and climate risks that are likely to influence our operations, products and facilities. The overall responsibility for environmental risk identification, analysis, evaluation and mitigation rests with the business units and detailed risk registers and self-assessments are completed to ensure the effective management of risks, inclusive of those which relating to:

- Materials resilience;
- Energy and Climate Change; and
- Waste, emissions and discharges.

Materials resilience: We strive to comply with all relevant materials use and management regulations. Our aim is to reduce the number and quantity of hazardous materials used in our products and processes.

Energy and climate change: We work to improve energy efficiency and de-carbonise our energy supply. This is a constant challenge as we operate many different processes, from large-scale, complex manufacturing operations over long lead times to intense digital services. Consequently, each of our businesses are tasked with setting their own efficiency and reduction targets.

In the 12 months to 31 October 2018, Group-wide greenhouse gas (GHG) emissions have decreased by 2%.

In 2018, our ten largest sites accounted for approximately 68% of total energy consumption. All of these sites operate an environmental management system verified to ISO* 14001, with an aim to reduce their energy consumption and, in turn, direct and indirect GHG emissions. A full 'Basis of Reporting' on our GHG emissions is available on our website.

→ Read more online www.baesystems.com



Waste, emissions and discharges: We assess the full lifecycle of our products – from design, manufacturing and use – to the end-of-life phase of our products, such as reconditioning and reuse, so that we can best understand the efficiencies and reductions we can make in terms of emissions, waste and discharges.

Reduction goals are set by each business, and reflect the scale and maturity of their facilities and the nature of activities. In all cases we aim for efficient use of resources and a decrease in waste in order to reduce our environmental footprint and generate cost-savings.

Greenhouse gas emissions data (tonnes CO₂e)

Combustion of fuel within BAE Systems facilities and vehicles (Scope 1)¹

2018	506,248
2017	525,032
2016	579,880
2015	596,515
2014	585,233

Total Greenhouse Gas Emissions (GHG)¹

2018	1,171,715
2017	1,200,568
2016	1,298,250
2015	1,352,200
2014	1,336,751

Electricity and steam purchased for BAE Systems use (Scope 2 – location-based)¹

2018	514,187
2017	528,411
2016	571,859
2015	607,876
2014	594,866

Total Greenhouse Gas Emissions per employee²

2018	14
2017	16
2016	17
2015	18
2014	18

Business travel in non-BAE Systems vehicles (Scope 3)¹

2018	151,280
2017	147,125
2016	146,511
2015	147,809
2014	156,652

→ Read more about our GHG methodology in our Annual Report and Accounts 2018 P34

→ Download <https://investors.baesystems.com/~media/Files/B/Bae-Systems-Investor-Relations-V3/results-and-reports/results/2018/annual-report-2018.pdf>

* International Organisation for Standardization.

1. See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement
 2. Excluding share of equity accounted investments.

Resource efficiency continued

Case study

Energy savings in lighting and computing

Our ongoing commitment to improving energy efficiency is paying off.

An example of our commitment, is an initiative in the US in support of Earth Day, where we encouraged employees to reduce energy use both in the office and at home with practical advice and guidance.

At our Samlesbury site, since we rolled out energy efficient LED lights site we have achieved a 2% reduction in cost between 2017 and 2018. Over a ten-year period we expect to have made a saving of £1.4m. Christmas and Bank Holiday switch off campaigns have resulted in further reductions, in one site we achieved a £155k saving during the Christmas period.

It's initiatives like these that have helped us win the UK Parliamentary Award for responsible business this year. Our CR programme was taken into account and special mention was made of our environmental performance.



Creating a lasting legacy at Bishopton

The development of the former Royal Ordnance Factory site at Bishopton into 'Dargavel Village' continued to make good progress in 2018. Situated near Glasgow in the UK, the programme led by Shared Services Real Estate Solutions is one of the country's largest brownfield regeneration schemes and is a key strategic objective for the Glasgow City region. The programme commenced in 2012 and when complete in 2034, is expected to create 4,000 new homes, a business park, a primary school, community centre, retail and commercial units, leisure facilities and a Community Woodland Park.

In 2018, we completed further decontamination and remediation works, continued to deliver the supporting infrastructure and amenity landscaping to support and enhance the development, secured a number of key planning consents including a new primary school, and undertook a number of initiatives to enhance the local ecology.

As part of our continued commitments to the local community we supported the Bishopton Community Development Trust with their ambitious plans to create a new multi-sports centre complex. In addition, we designed and constructed a bespoke monument to support the centenary of the First World War and to recognise the contribution of the former factories and the local community.

The performance of the UK Shared Services Real Estate Solutions team was formally recognised by the Considerate Constructors Scheme who awarded the programme with a 'Certificate of Performance Beyond Compliance' for the fourth consecutive year. The development was also judged to be a winner in the 'place' category of the Scottish Awards for Quality in Planning 2018 after being nominated by Renfrewshire Council.

Plans for 2019 include the completion of further enabling infrastructure, the opening of the first phase of the retail park in the village centre, along with new footpaths and recreational areas to enable public access into areas of the Community Woodland Park.

1,900

The project, covering 1,900 acres, is the largest brownfield regeneration project in the UK.

4,000

new homes to be created.

1,300

remaining acres will be a country park.

→ Read more online
www.baesystems.com/en-uk/bishopton

Environmental Globe of Honour

For the first time within BAE Systems, our Naval Ships business achieved the Globe of Honour award for their environmental performance. This was awarded by the British Safety Council and is given to companies that they describe as outstanding in the global marketplace. This achievement recognises the business' understanding of effective environmental management and their commitment to integrating environmental management throughout their processes and projects.



> The development of the former Royal Ordnance Factory site at Bishopton into 'Dargavel Village' continued to make good progress in 2018.

Community investment

By supporting the communities in which we live and work we're delivering on our promise to make a positive difference and helping to give our employees a strong sense of pride.

Our approach

It is important to us and our employees that we have a strong presence in our communities and that we help people who can best benefit from the help that we can offer. We like to work on issues which affect our industry such as supporting young people in to science, technology, engineering and maths (STEM) subjects and past and present armed forces personnel.

We are guided by our Global Community Investment Strategy which aims to build and nurture mutually beneficial relationships between our business, our people and local stakeholders.

We build partnerships with organisations which allow us to support initiatives that have meaning and impact to our business and employees. These include not-for-profit organisations and education providers.

Our primary focus areas are:

The armed forces – we support active service personnel, veterans and their families;

Education – we inspire young people to consider STEM subjects and careers; and

Local community – we work to support the community in which we operate.

We donate to charities that are vetted via a credible third party with knowledge of the local conditions rather than to individuals or third-party fundraisers. We also make sure that any donation or other community giving is tested against the principle that it does not place, and does not appear to place actual or potential customers, suppliers or government officials under any obligation to our business. All of our community investment expenditure is assured by an independent assurance provider.

£11m¹

In 2018 our community investments totalled more than £11m¹.

\$100k

In the US, employee participation helped raise more than \$100,000 for military not-for-profit organisations.

Our impact

In 2018 our community investments totalled more than £11m¹. We use the London Benchmarking Group methodology to define the value of our support and its impact on our community partners, in comparison with our peers and other organisations.

As well as donations, sponsorship and employee fundraising, we develop and support structured education programmes and enable our employees to volunteer their skills and time. Our communications team also supports awareness raising efforts, promoting projects and community causes through our website, intranet and media outlets. An important strand of our work is to support armed forces charities and organisations that assist serving personnel, veterans and their families. During 2018, we were proud, as a founder donor (£5m over five years), to witness the handover of the Defence and National Rehabilitation Centre to the UK Ministry of Defence. Now operational, the centre is already improving the lives of injured service personnel and veterans and is expected to lead to advances in the clinical rehabilitation medicine field worldwide. We encourage our employees to volunteer as part of their career journey by offering the option to add volunteering as a personal development goal. In KSA and the UK, our education ambassadors have given their time to encourage school age children to pursue STEM subjects and careers.

We also match the contributions made by our UK and US employees to charities that support our customer, education and skills agenda. In the US, during an integrated campaign in the lead up to Veteran's Day 2018, employee participation helped raise more than \$100,000 for military not-for-profit organisations.

Case study

Community involvement



We partner with organisations that align to our strategy and encourage our people to get involved.

A key strategic focus for our success is the availability of new talented employees joining the industry. Often this matches with the needs for the markets we operate in; we found this particularly to be the case in Oman.

During 2018, in collaboration with the Ministry of Education, our team delivered a number of workshops, designed to introduce Omani students to engineering. At two schools in Manah grade ten students were given an introduction to Science, Technology, Engineering and Maths by Omani BAE Systems employees.

Grade ten is an important academic year for students as they choose the classes they want to take to support their future careers, and we're pleased to be able to inspire them into careers in engineering.

1. See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement

Community investment continued

Creating a legacy for service personnel

Supporting active service personnel, veterans and their families has always been close to our hearts.

BAE Systems Australia has been supporting Soldier On since 2015, and many employees have contributed through generous personal donations and volunteering their time.

In 2018 we expanded our partnership providing an additional \$250,000 to Soldier On to further support their work on health and wellbeing, education, employment and social programmes.

This increase in funding will help us to make more of a difference and support a legacy for Australia's veteran community.

\$250k

Donated to Soldier On to further support their work on health and wellbeing, education, employment and social programmes.

Coming together for the community

We encourage our employees to get involved and support their local communities.

In the US this year for Together Day, more than 200 employees across 15 Electronic Systems sites gave their time to a range of non-profit organisations, to include Fisher House, which builds comfort homes where military and veteran's families can stay free of charge while a loved one is in the hospital.

Volunteer activities ranged from packing baskets with essentials such as toothpaste and toothbrushes for Fisher House families in Pittsburgh, Pennsylvania to installing smoke alarms in Bellevue, Nebraska, and refreshing landscaping at the Richard Lugar Safe Haven in Fort Wayne, Indiana.

Employees took great pride in providing these valuable services to the communities and also enjoyed a shared sense of purpose while giving back. For Kari Runnels, giving back meant even more. She spent time at the Fisher House in San Diego while her husband went through his critical surgery and recovery. As Kari noted: "Fisher House is just there to support the families. There's a place to stay, there's food, and there's some camaraderie because other people are going through what you're going through."



Fisher House is just there to support the families. There's a place to stay, there's food, and there's some camaraderie because other people are going through what you're going through.

Kari Runnels



Product stewardship

Because we develop some of the world's most innovative technologies we need to consistently invest in research and development (R&D). This way we'll continue to generate the best possible products and capabilities for our customers.

Product stewardship means that we:



Observe the requirements of external regulations and our Code of Conduct when designing, manufacturing and selling our products.



Maintain and enhance the integrity of our products, through-life, in particular around their safety, quality conformance and environmental footprint.



Consistently invest in research and innovation around our products and associated services.

We invest in a wide range of R&D activities that are targeted in customer priority areas and in programmes that will give us a competitive advantage. In 2018, we spent £1.5bn (2017 £1.6bn) on R&D, of which £222m (2017 £238m) was funded by BAE Systems. In addition, the Group's share of the R&D expenditure of its equity accounted investments in 2018 was £0.2bn (2017 £0.1bn).

We make sure our investments in technologies are protected via a portfolio of patents and patent applications which currently cover approximately 2,500 inventions worldwide.

Our approach

Our products operate in hostile environments and, given their scale and complexity, have to be robust and designed for maximum utility. We therefore work closely with our customers to enhance the lifetime of products, maximise the recycling potential and identify environmentally sound means of disposal. We are constantly looking at ways to maximise the potential for reuse and remanufacture of our products and associated manufacturing processes.

We operate environmental management systems linked to our policies and overseen by our Lifecycle Management (LCM). The Policies, LCM and related guidance support a consistent approach to the management of environmental risks throughout the product lifecycle.

The LCM assurance framework is broader in scope than a traditional environmental 'lifecycle assessment', and is focused upon programme, procurement and commercial risk management as well as technical, safety, quality and environmental risk management.

Product lifecycle assessments are embedded within our engineering lifecycle, from concept, through to disposal. Engineering specialists in all of our businesses ensure that the risks linked to environmental impacts are assessed and appropriately addressed throughout the product's life. Some of our product lifecycles can extend up to 50 years, end to end. During this lifetime, products will often be upgraded to maintain their effectiveness and resilience and to operate using the latest materials, systems and technology.

This approach to product stewardship requires us to work closely with our partners in the upstream and downstream supply chain. For example, we sit on a number of industry working groups:

- ADS Environmental Sustainability Working Group and Hazardous Materials Sub-Group;
- International Aerospace Environment Group;
- Aerospace Industries Association; and
- NATO Working Group which addresses means of reducing the environmental impact associated with the acquisition and use of critical materials.

Materials resilience

We operate in highly-regulated environments in many jurisdictions. In all cases, regulations define how we operate as a business and how we design, build, maintain and support our products. Our approach to 'design for recycling and reuse' is appropriate to each product, as they are generally bespoke and usually have very long lifespans.

An important environmental management issue for us is the responsible use and disposal of chemicals and hazardous materials, as regulated under the EU Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) legislation and elsewhere. Robust environmental management systems are in place across all our businesses to mitigate the associated legislative compliance and materials obsolescence risks.

We support our customers through design, build, operations, maintenance and end-of-life phases of their products.

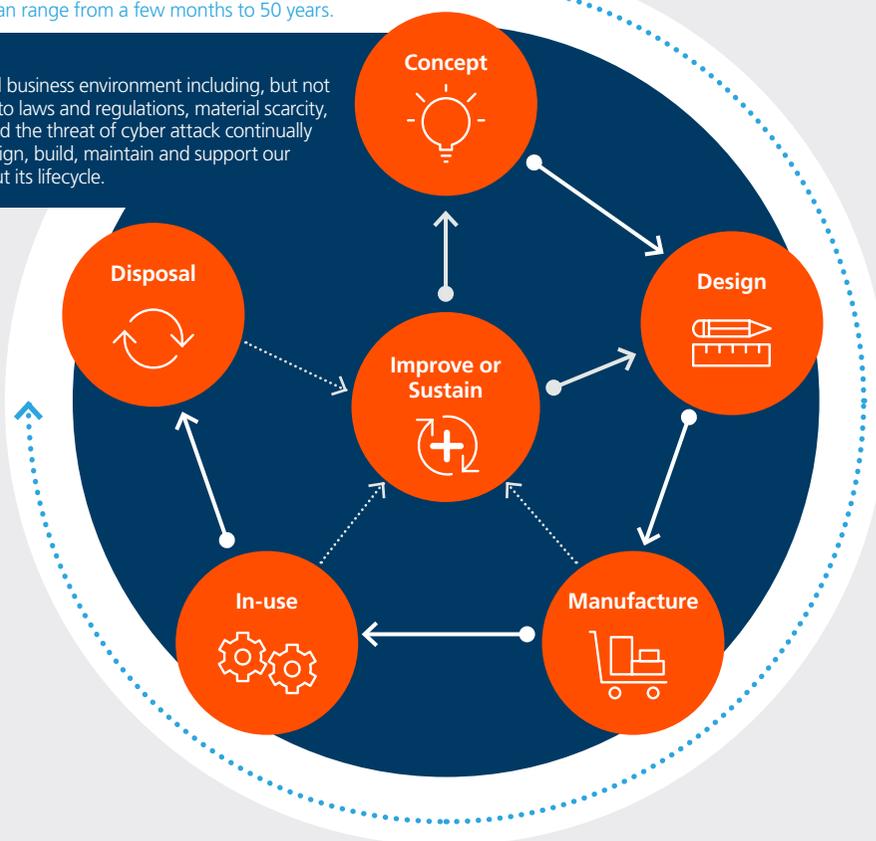
Product stewardship continued

Time scale

Product lifecycles can range from a few months to 50 years.

External forces

Changes to external business environment including, but not limited to, changes to laws and regulations, material scarcity, new technology, and the threat of cyber attack continually impact how we design, build, maintain and support our products throughout its lifecycle.



Concept

The concept phase covers all aspects of the product design and how we might deliver on the customer's requirements. This is a process where we make sure we consider all elements of the project against our own policies and procedures including:

- meeting the expectations of our customers to deliver better, faster and more cost effective solutions to the challenges demanded by an ever more complex world;
- assessing reputational risk;
- a safety and environmental risk and legislation review including environmental footprint, resource and energy efficiency and minimising use of hazardous materials;
- reviewing existing Company product solutions;
- assessing new and emerging technologies;
- discussing product trade-offs – increased fuel use for increased speed for example;
- scoping the level of resources needed, including people, facilities, manufacturing capability and technology; and
- identifying procurement strategy and supply chain.

Design

It's at this stage that we fine tune the concept. The idea is moved into detailed design which agrees new and emerging technologies, manufacturing approach, work place and process safety, product use, obsolescence and recycling. This ensures quality is built in throughout its lifecycle, designing the opportunity for manufacture and maintenance whilst minimising waste. We work with each customer to agree the level of safety of each product through its life, to agree what risks are acceptable, lawful and ethical.

Manufacture

Manufacturing processes are continually reviewed to incorporate feedback from product testing, knowledge gained and lessons learned.

In-use

Products are often upgraded to maintain their effectiveness and resilience and to operate using the latest materials, systems and technology. At these stages we also address any changes to legislation that mean that materials or processes that were once acceptable can no longer be used or address materials that have now been categorised as scarce material.

Disposal

If we are responsible for decommissioning products, we consider the most environmentally sound way of re-purposing or disposal, including reusing and recycling materials.

Improve or Sustain

As a result of the increasing complexity of the world we operate within and the challenges our products face at whichever stage of the product lifecycle they are at, we are increasingly using digital modelling and synthetic environments to ensure the integrity, robustness and resilience of our products. These techniques allow us to reduce costs and timescales for our customers as well as ensuring we have an efficient through-life design process that increases quality and reduces waste.

Product stewardship continued

Case study

Breaking barriers with green tech



Having an eye to the future and reducing environmental impacts can open up opportunities to explore new technologies. We have been doing just this in working with Prismatic, a leading technology SME who are developing an innovative new solar powered High Altitude, Long Endurance (HALE) UAV known as PHASA-35™.

The technology would offer a year-round, low cost persistent service for a wide range of needs including surveillance and vital communications to remote areas, using the sun to power the aircraft during the day and recharge the batteries for overnight operation.

Solar HALE vehicles offer a significantly cheaper alternative to conventional satellite technology, with PHASA-35™, being a concept solar electric UAV that uses proven, long life battery technology and ultra-lightweight solar cells to potentially maintain continuous flight for up to 12 months.

The PHASA-35™ concept has a 35-metre wingspan and weighs just 150kg – its lightweight, efficient build allows it to fly at high altitudes for long periods of time. All being well, the first aircraft should be ready for flight tests in 2019.

Energy and climate change

Maximum energy efficiency is a key requirement of the services and products that we provide. We therefore design for efficiency and are often involved in the maintenance and servicing of products through life. While we design endurance and resilience into our products and services, many will, by their very nature, be resource intensive when in use. In all cases, we continue to explore and apply the latest thinking and techniques around resource and energy efficiency. As part of BAE Systems' ongoing commitment to Portsmouth Naval Base, we are working alongside the Ministry of Defence on the installation of a Combined Heat and Power plant (CHP) at the site. This system will recycle energy, reduce carbon footprint and is likely to save the Ministry of Defence up to £4m per year in energy costs. Energy and electrical requirements at the naval base will significantly increase with the arrival of the new aircraft carriers; developing a dedicated CHP facility will not only meet this demand, but will support the Ministry of Defence's drive for a more modern and energy efficient base.

>80%

Potential reductions in NOx emissions from future Naval Vessels, there's a growing market for the incorporation of Selective Catalytic Reduction technology.

Waste, emissions and discharges

We apply our engineering expertise to improve product and process resource efficiency. We also take account of specific legal requirements within the LCM. For example, in the Maritime domain, we ensure that our products fully comply with the International Convention for the Prevention of Pollution from Ships (MARPOL). With the implementation of more stringent 'Tier III' diesel emission controls under MARPOL, and the expected rise in the number of Emission Control Areas, modern Navies are increasingly turning to cleaner propulsion technologies in an effort to drive down pollution and safeguard freedom of navigation. Consequently, with the potential for >80% reductions in NOx emissions, there's a growing market for the incorporation of Selective Catalytic Reduction technology. Leading the way, two Royal Navy Offshore Patrol Vessels, are in the process of embodying this exhaust treatment; the first time ships of this nature have been fitted with this pollution reducing equipment.

Product safety

Our Product Safety Policy defines our approach in this area. This policy applies to product safety through the lifecycle and across the supply chain, focusing on four key principles: Accountability; Level of Safety; Conforming Product and Learning and Sharing of Information.

Our Product Safety Management Systems reduce the risk of unintentional harm to people, property and the environment, even beyond the terms of our contractual support for products in use. We continually work to improve safety standards, by raising awareness of our employees' roles in identifying, managing and reducing safety risks.

Responsible procurement

We create best in class products and services through extensive collaboration with more than 20,000 suppliers worldwide.

These relationships are usually long-lasting due to the complex nature of our products and their long lifecycles. It's important therefore, that we work with suppliers who share our values and who embrace standards of ethical behaviours consistent with our own.

Our approach

The way we carry out our purchasing decisions and manage risks with our suppliers is defined in our Procurement Policy, supported by our Lifecycle Management Framework and Supplier Principles – Guidance for Responsible Business. The latter defines the behaviour expected of our suppliers and what they can expect from us. The Principles also specify compliance with all relevant national and international laws.

The main themes covered by the Policy and Principles are:

Supplier selection and approval – identifying suppliers that share our values and meet all necessary requirements, regulations and standards.

Supplier management – ensuring compliance, managing performance and risks, implementing best practice and identifying opportunities, for example, collaboration to reduce costs and minimise energy, waste and water use.

Prompt payment – we continue our commitment to the UK Government Prompt Payment Code and we are a signatory to the Australian Small Business Supplier Payment Code.

Compliance with the Procurement Policy and adoption of the Supplier Principles is managed by our business

procurement teams, and monitored by our Global Procurement Council, comprised of procurement and supply chain directors from across our businesses. Our Procurement function supports management teams in winning business, reducing costs and achieving business plan objectives. It is also responsible for communicating the Principles to its suppliers and conducting ongoing risk assessments. These assessments cover issues such as anti-bribery and anti-corruption measures, environmental impact, safety, export controls, human rights, modern slavery and legal adherence. These risks are monitored throughout all stages of projects and contracts.

We have published responses to the UK Modern Slavery Act and the California Transparency in Supply Chain Act (please see Trust and Integrity for further information).

Our commitment to Small and Medium-Sized Enterprises (SMEs)

We select suppliers based on merit, for example, technical capability, quality, cost, scheduling, capacity, flexibility and risk (financial and non-financial). Although SMEs must meet the same minimum standards as our larger suppliers, and must compete on a similar basis, we endeavour to remove barriers to contracting, resulting from SMEs' limited resources and smaller scale operations.

Our Standard Conditions of Purchase and timely payment terms help to streamline routine purchases and are the baseline for more complex commercial arrangements. We promote collaboration with SMEs through 'Meet the Buyer' events, technology conferences, supplier forums

The main themes covered by the Policy and Principles are:



Supplier selection and approval
Identifying suppliers that share our values and meet all necessary requirements, regulations and standards.



Supplier management
Ensuring compliance, managing performance and risks, implementing best practice and identifying opportunities, for example, collaboration to reduce costs and minimise energy, waste and water use.



Prompt payment
We continue our commitment to the UK Government Prompt Payment Code and we are a signatory to the Australian Small Business Supplier Payment Code.

and supplier portals. We encourage knowledge sharing and invest in high-quality research. Such initiatives help fund and support innovative SMEs, and allow them to grow their business.

Through our Global Access Program (GAP) in Australia, we participate in the Federal Government's Global Supply Chain initiative. GAP seeks out opportunities for Australian industry to participate in our global enterprise's supply chain as well as providing SMEs access to Company resources for advice and business mentoring to be successful in the international defence industry.

SMEs are key to the delivery of our programmes. We share with the UK Government and our customers the objective of ensuring a healthy, agile and vibrant supply chain, and support our SMEs to help us achieve this.

Supply chain diversity and inclusion

We understand and value the vital role that diverse small businesses can play in driving innovation and creating jobs in our industry and across the broader economy.

The US business is committed to the Small Business Program, operated by the Defense Contract Management Agency (DCMA), an arm of the US Department of Defense. DCMA is charged with ensuring acquisition programmes are delivered on time, on budget, and with the necessary requirements. The Small Business Program takes this mission a step farther to focus on ensuring small businesses receive a fair proportion of prime contractors' sub-contracts. Our supply chain processes and inclusive procurement practices are fully aligned with these tenets, and partnering with qualified small businesses is a key facet of how we achieve our overarching business objectives.

Responsible procurement continued

Streamlining the supply chain

In collaboration with ADS Group, the aerospace, defence, security and space industries trade association; we created, and are increasing our participation in, the Joint Supply Chain Accreditation Register (JOSCAR). This industry-wide management system, standardises data collection and due diligence across the UK supply chain. BAE Systems and other defence contractors can access a single, shared source of information about individual suppliers, relieving pressure on these companies to respond to multiple requests from different customers to provide the same information. It dramatically reduces due diligence times for both customer and supplier and is greatly improving standards and levels of risk management.

Maritime Services uses JOSCAR to implement our Supplier Principles and record individual supplier commitments to these Principles. In 2018, 93% of the Maritime Services supply base engaged through JOSCAR has acknowledged and agreed to the Principles. Air, Maritime and Electronic Systems have now joined JOSCAR and are in the process of implementation.

All non-US managed businesses have access to a Dow Jones Supply Chain Compliance Toolkit as part of anti-corruption due diligence checks for both new and existing suppliers.

93%

In 2018, 93% of the Maritime Services supply base engaged through JOSCAR has acknowledged and agreed to the Principles.

Responsible procurement

We want our suppliers to embrace our standards in all aspects including our approach to CR.

That's why, in 2018, we began creating a CR toolkit that brings together how we govern CR in our UK Supply Chain, together with a suite of Supply Chain CR initiatives through which we can collaboratively contribute to making a positive economic, social and environmental difference to wider society.

In the UK we have two programmes which are part of our Future Proofing a Diverse Talent Pipeline project, STEM and Movement to Work.

STEM: We enable our suppliers to engage and inspire the next generation through a STEM 'How to Guide' for schools that was created by BAE Systems and the Women's Business Council. The guide, aimed at Small Medium Enterprises, provides the links and resources for them to become STEM ambassadors and deliver activities with schools and youth groups.

Movement to Work: This project involves BAE Systems and our Suppliers reaching out to the individuals (16-24) who are not in education, employment or training (NEET). Together we provide high quality work training opportunities, including vocational training, mentoring and on-the-job experience. Where possible we link placements to jobs or apprenticeships to create sustainable employment. In 2018, BAE Systems was ranked 1st on the MTW 2018 Employer Recruitment Leader Board.

Productivity through People: Provides SMEs with benchmarking of their current performance, academic input on management practices and sharing of real life experiences from exemplar organisations. In 2018, we saw our Second Cohort from the North West Programme graduate and started our first Scotland Programme. In 2019, we look forward to starting our Midlands Programme.

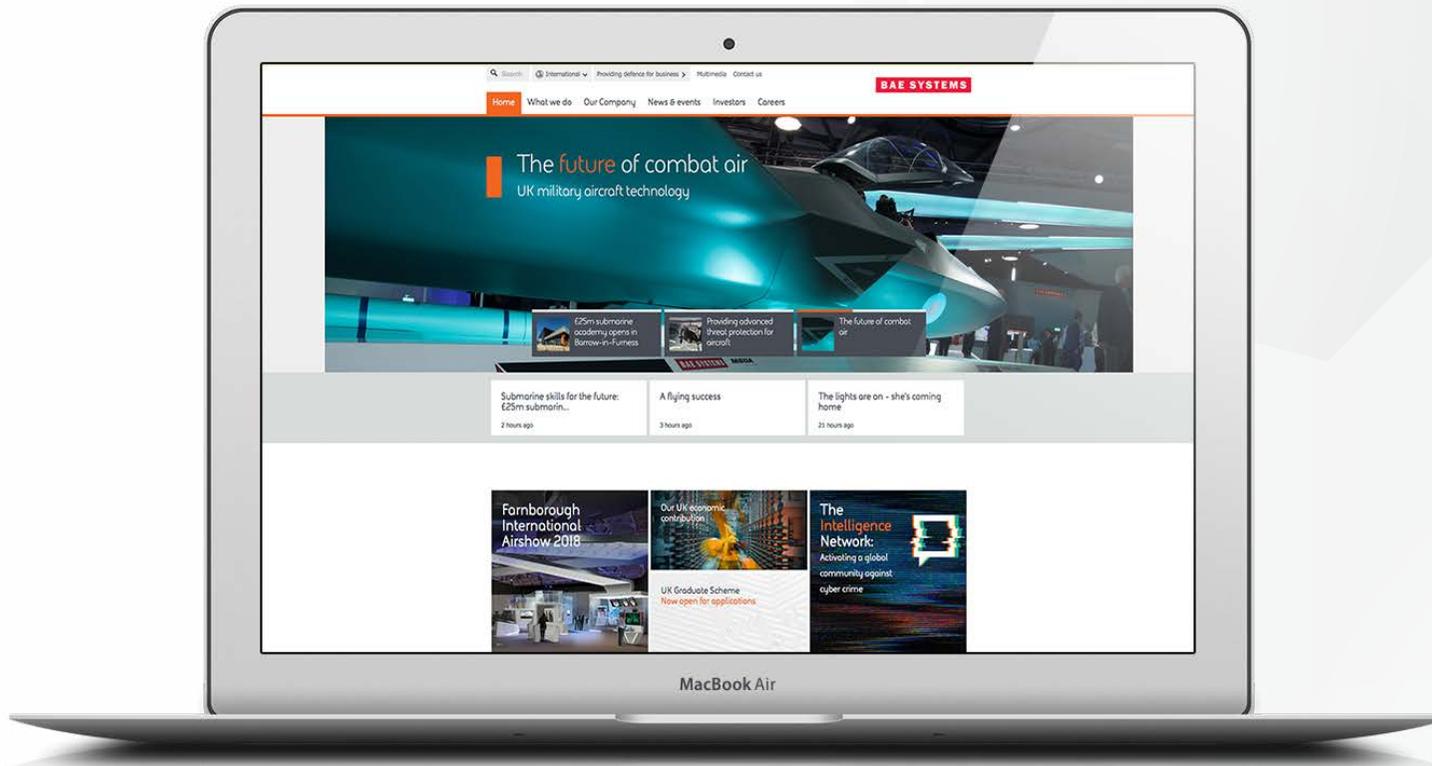
MOVEMENT
TO WORK™




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