



UK Modern Slavery Act

Response 2021

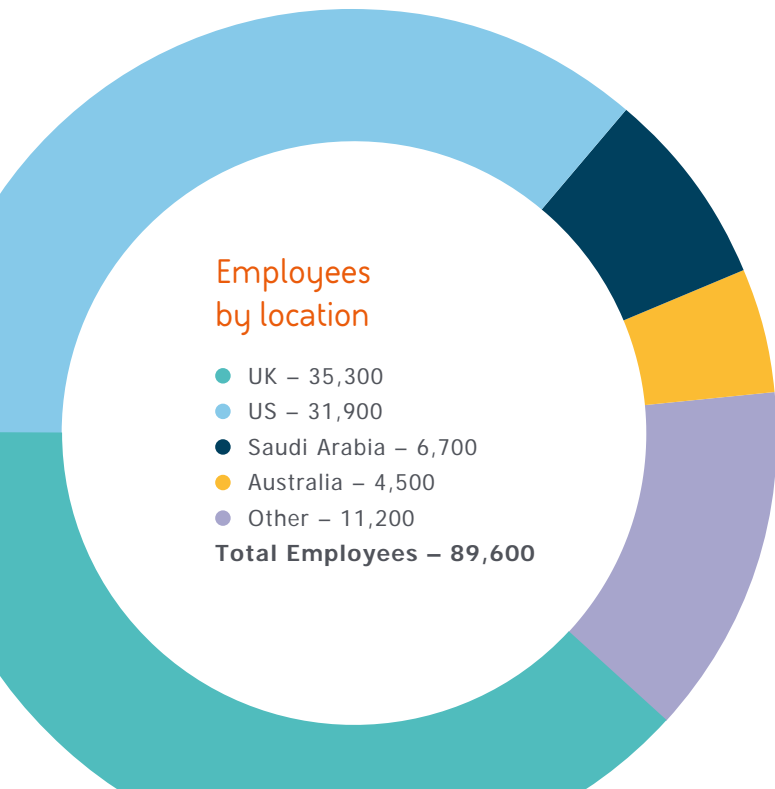
BAE SYSTEMS

Contents

Our business and supply chain

This statement is made pursuant to Section 54 of the UK Modern Slavery Act 2015 and sets out the steps BAE Systems plc and its subsidiaries have taken to prevent slavery and human trafficking in our business and supply chain during the year to 31 December 2020.

We are committed to conducting business responsibly and to maintaining and improving systems and processes that reduce the risk of slavery and human trafficking in our business and supply chain.



Our Company

At BAE Systems we serve, supply and protect those who serve and protect us, in a corporate culture that is performance driven and values led.

We supply defence equipment, electronics and services, as well as cyber, intelligence and security solutions for our customers so they can maintain a competitive edge across the air, maritime, land and cyber domains.

We employ a skilled workforce of 89,600 people in more than 40 countries. The majority of our workforce consists of full-time employees with a small percentage of sub-contracted workers to carry out specific tasks such as short term contract support.

Key achievements in 2020

Chaired IFBEC's working group on Supplier Code of Conduct update

Continued supply chain assurance activity increased to double that achieved in 2019

Our human rights commitment

We are committed to respecting and upholding human rights wherever we operate, in respect of activities under the full, direct control of the Company.

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.

Our Code of Conduct and other global policies and processes mandated under the Operational Framework, together with our supporting principles and guidance, support our commitment to human rights and are regularly reviewed. This results, for example, in due diligence being carried out during the supplier evaluation stage against non-financial risks.

Our approach to human rights constitutes:

Maintaining the highest ethical standards and acting in a socially responsible manner complying with applicable laws.

Respecting and supporting the communities in which our businesses are located.

Maintaining and improving global policies and processes which relate to human rights wherever we operate, in respect of activities under the full direct control of the Company.

Responsible product development.

Appointing and working with suppliers and business partners who are expected to adopt similarly high standards of ethical behaviour and business conduct, consistent to our own, in accordance with applicable national laws.

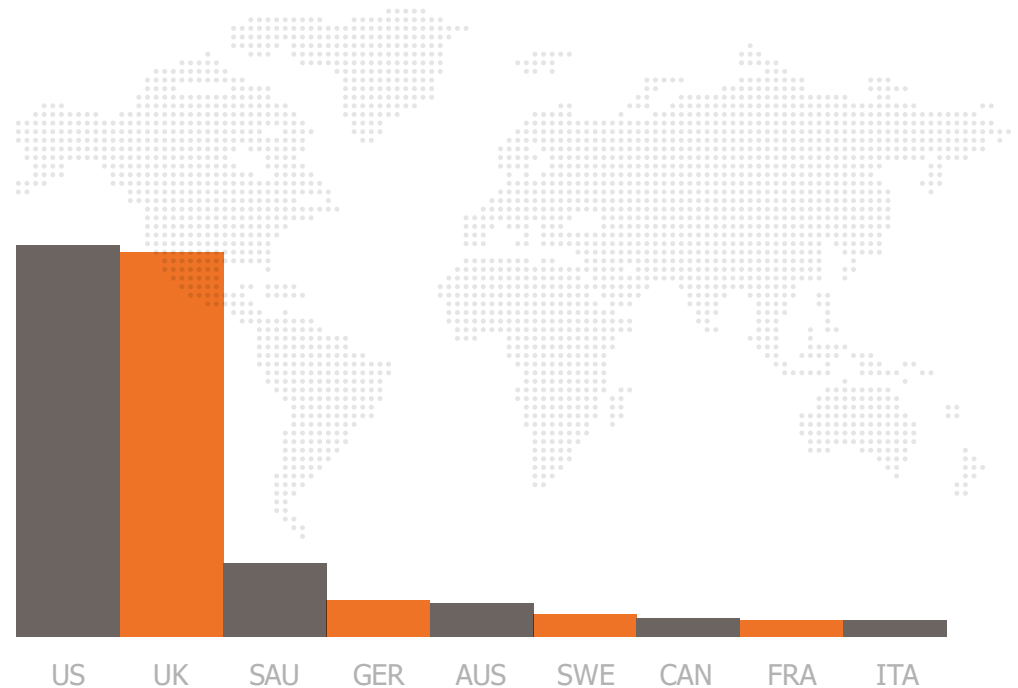
Supply chain overview

We create best-in-class products and services through extensive collaboration, spending more than £11bn with more than 21,000 directly contracted suppliers worldwide. These relationships are usually long-lasting due to the complex nature of our products and their long lifecycles.

It is important that we work with suppliers who share our values and who embrace standards of ethical behaviours consistent with our own. In order to do business ethically, how our suppliers behave is of the utmost importance.

Our supply chain management and [Supplier Principles – Guidance for Responsible Business \(Supplier Principles\)](#) are focused on high achievement of our standards.

Top suppliers	% of Total Spend
US	39.4%
UK	39.1%
SAUDI ARABIA	6.9%
GERMANY	3.9%
AUSTRALIA	3.4%
SWEDEN	1.8%
CANADA	1.1%
FRANCE	0.9%
ITALY	0.9%



Spending more than **£11bn** with more than **21,000** directly contracted suppliers worldwide

Human rights and our governance approach

Supporting our supply chain during COVID-19

Our supply chains are the critical links which make much of what we do possible. During 2020, our activities focused on responding to pandemic-related disruption by reinforcing supply chain resilience and sharing best practices across our business and supply chain (when feasible). In 2020, in response to COVID-19, we provided £151m of financial support, by way of early or advance payments, to around 200 suppliers across the Group.

In 2020, in response to the global pandemic and to further strengthen our supply chain resilience, we identified suppliers globally that were critical to programme delivery. These were defined as suppliers that are required in direct support of business critical activities, either on site or off site and for both goods and services.

We engaged critical suppliers and carried out financial assessments to ensure continuity of supply and to understand the impacts of COVID-19 on their business and supplying our programmes. We worked closely with our supply chains to mitigate disruptions where possible and maintain resilience, in some cases advancing payments where required.

We continued to support our supply chain and have seen a £102m increase in spend with our suppliers in the first half of 2020 compared with 2019.

We continue to monitor local operational situations with particular focus on our supply chains as we manage fragility in certain areas.



We provided **£151m** of financial support, by way of early or advance payments, to around **200 suppliers** across the Group

Our governance approach

The Board has overall accountability for the broad range of subjects that make up human rights – safety, ethics, responsible business conduct, diversity and inclusion, stakeholder and employee engagement and supplier conduct – areas which make up our Sustainability agenda. The Corporate Responsibility Committee of our Board is dedicated to the oversight of the Company's performance in Sustainability, including our approach to human rights across these areas. If risks were identified within the internal operation of our businesses contrary to the above, we would seek to address these as quickly as possible. Our Chief Executive has primary responsibility for delivery of the business strategy. He is supported on sustainability matters by the Group Director Governance, Conduct and Sustainability who advises on sustainability strategy and direction and liaises with the teams in our business to ensure delivery.

Our commitment and approach to human rights is embedded across global policies and processes in our Operational Framework and our [Code of Conduct](#). Our Code is translated into Arabic, Hebrew, Spanish, Swedish and UK/US English and is embedded across the business. Employees undertake annual training on the Code.

All employees are required to adhere to our [Code of Conduct](#) and group policies in addition to any specific requirements outlined in local policies.

Our global and local policies and processes for our operations cover:

Supporting the rights of freedom of association and the effective recognition of the right to collective bargaining, where legal.

Upholding elimination of all forms of forced and compulsory labour and effective abolition of child labour.

Upholding elimination of discrimination in respect of employment and occupation.

Supporting a precautionary approach to environmental challenges.

Undertaking initiatives to promote greater environmental responsibility.

Working against corruption in all forms, including extortion and bribery.

BAE Systems employees appointed to the board, or comparable governing body for non-controlled joint ventures, exert the influence they have to encourage the adoption of governance that is substantially equivalent to our own including, policies and processes, [Code of Conduct](#), employee training and [Ethics Helpline](#). BAE Systems also has the right to audit and review its subsidiary businesses.

Throughout our relationship with our suppliers, we raise awareness of and engage them in our '[Supplier Principles – Guidance for Responsible Business](#)' which set out our expectations with regards to slavery and human trafficking, within our supply chain. Suppliers are regularly reviewed throughout their contractual relationships against such non-financial risks.

We monitor our performance and compliance with policies and processes via the twice yearly Operational Assurance Statement. This is made up of two parts:

A self-assessment by our business and functional leaders of compliance with our Operational Framework; and

A report showing the key financial and non-financial risks for the relevant business completed by line and functional leaders.

The key financial and non-financial risks identified are collated and reviewed by our Executive Committee to identify those issues where the cumulative risk, or possible reputational impacts, could be significant.

Risk assessment and management

Our approach to identifying and assessing human rights risks is embedded within our approach to risk management. Responsibility for the management of our most significant non-financial risks is determined by our Executive Committee.

The Operational Assurance Statement and non-financial risk registers are reviewed regularly by our Executive Committee to monitor the status and progression of mitigation plans.

The Board's Audit Committee monitors the key risks identified by the risk assessment processes and reports its findings to the Board twice a year. It is also responsible for reviewing in detail the effectiveness of our system of internal control policies, and procedures for the identification, assessment and reporting of risk.

The Board has overall responsibility for determining the nature and extent of the risk it is willing to take, and ensuring that risks are managed effectively. Risk is a regular agenda item at Board meetings and the Board reviews risk as part of its annual strategy review process. This provides the Board with an appreciation of the key risks within the business and oversight of how they are being managed.

The Board regularly reviews the principal risks we face, including those that would threaten our business model, future performance, solvency, liquidity, or reputation. Such risks are assessed based on the likelihood of occurrence, the potential impact on the Company and the timescale over which they might occur. A summary of these risks, together with details of how they are being mitigated and managed, is included in our 2020 Annual Report. While the risks of modern slavery and human trafficking have been identified through our Operational Framework as potential risks, they are not identified as principal risks for the Company.

We have assessed that our modern slavery risks are low. Two specific areas of our business fall into our identified areas of risk – our employees and our tier one suppliers' employees. We continue to review and monitor our status of this risk.



We have assessed that our modern slavery risks are low

Due diligence

Our people

Due to the nature of the industry we work in and the customers we support, all potential employees and contingent workers go through a pre-employment vetting process. Subject to local laws in each jurisdiction, individuals are verified for identity, employment and academic history, nationality and right to work status and criminal record checks.

Where we work with third party recruitment service providers, they are appointed and managed via our supplier due diligence process and Supplier Principles. Suppliers must not charge employees fees, recruitment costs or deposits, directly or indirectly, as a precondition of work.

Our people processes ensure that every employee has a written contract or offer letter (depending on the jurisdiction of employment) in a language they understand clearly indicating their rights and responsibilities with regard to wages, working hours, benefits and other working and employment conditions. We do not retain any form of employee identification (passports or work permits), nor destroy or deny access to such documentation, as a condition of employment unless required by applicable law.

We prohibit the use of all forms of modern slavery and human trafficking, forced, bonded or indentured labour.

We comply with child labour laws and will not employ anyone under the age of 15 or, where the mandatory school leaving age is higher, we will not employ anyone under that age in that country. We prohibit the hiring of individuals that are under 18 years of age for positions in which hazardous work is required. We are committed to the development of young people by providing development and apprenticeship programmes.

Our supplier selection process

Prior to approving and selecting suppliers, we outline the products and services we need and establish a way to identify interested suppliers including small businesses. Once we have a shortlist of potentially suitable suppliers, they are asked to complete a questionnaire and appropriate risk-based due diligence is carried out against the following non-financial risks:

Maintaining the highest ethical standards and acting in a socially responsible manner complying with applicable laws

Responsible Trading Principles - business ethics, anticorruption and anti-bribery, governance and legislation;

Human rights – working hours, harassment and unlawful discrimination, whistleblowing line, slavery, human trafficking and child labour;

Health and safety – workplace and product safety;

Environment – impact of operations and products;

Management systems – environmental management systems certified to ISO14001*; and

Responsible sourcing including conflict minerals.

From this analysis the risks are assessed, mitigation actions are placed and suitable suppliers (often after a competitive tender) are then approved on the quality assurance and finance system or deemed unsuitable.

In some cases, suppliers are approved with corrective action plans. Each corrective action plan is specific to the supplier and project to which it is supplying. An example may be where a potential new supplier may not have a Code of Conduct in place or an equivalent standard to our own.

The action may be to help them write their own Code of Conduct and to put it in place, or if they are not prepared to do this, we may choose to use a different supplier.

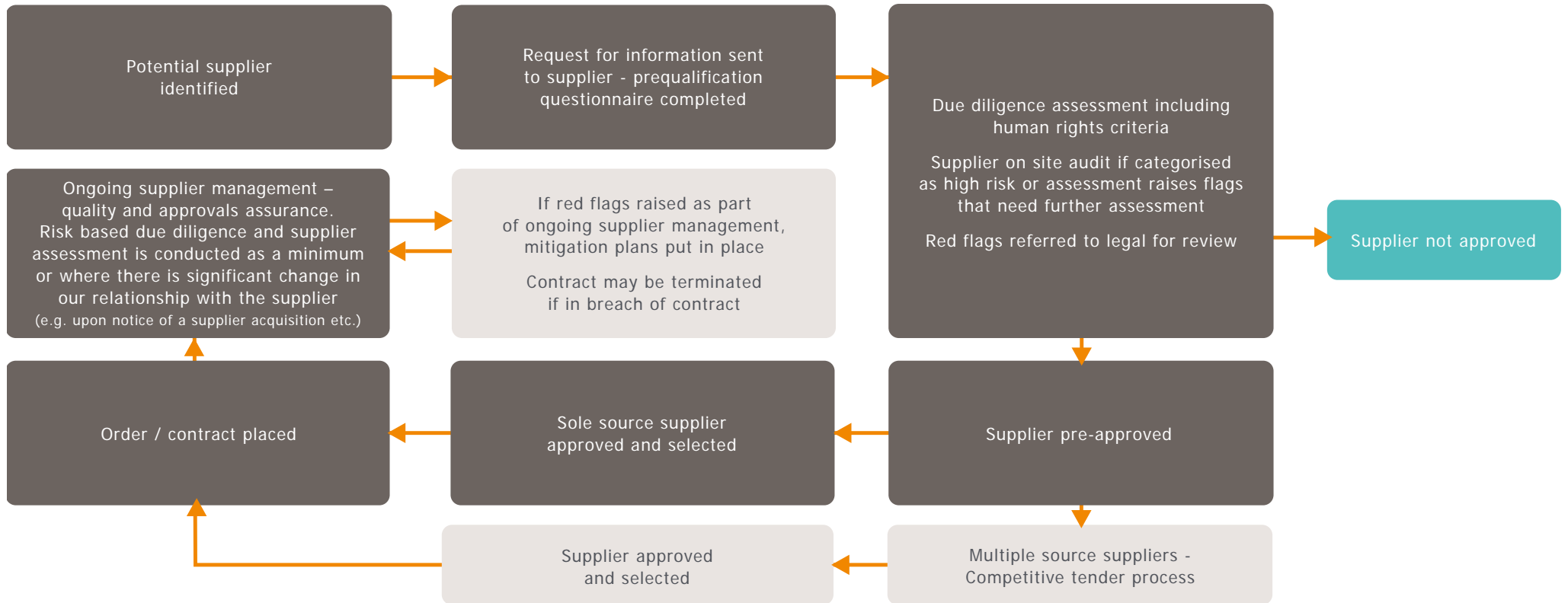
We use the Dow Jones Supply Chain Compliance Toolkit as part of anti-corruption due diligence checks for both new and existing suppliers.

Once a supplier has been approved and the contract has been signed, we continue to actively manage and monitor that supplier throughout the life of the contract. This includes managing any significant changes in our relationship with the supplier as well as ongoing risk-based due diligence.

To streamline and standardise data collection and due diligence for suppliers across the industry, in the UK we use the Joint Supply Chain Accreditation Register (JOSCAR), co-created with ADS, the aerospace and defence sector association. This reduces due diligence times for customers and suppliers and has improved risk management practices.

For example, our Maritime Services business has rolled out our Supplier Principles through JOSCAR, as a result of which 93% of suppliers were engaged with the Principles throughout 2020.

* International Organization for Standardization



On-going supplier management and assurance

Directly contracted suppliers are regularly reviewed, throughout their contractual relationship, as part of our supplier management process (on-going assurance review) and via our project management processes.

Supplier non-financial risks are re-reviewed (via on-site audit, remote deep dive auditing activity or questionnaire depending on level of risk categorisation), and progress against any mitigation plans are monitored. If a supplier's level of risk increases, or gaps in performance are highlighted, performance improvement plans are put in place or enhanced.

2020 assurance activity

During 2020, we undertook supply chain assurance activity to assess compliance with our Supplier Principles.

Our assessments increased to cover 20% of global spend, up from 10% in 2019, 14 low-level ethical business conduct risks were identified and resolved. We also continued to collaborate with suppliers during these unprecedented times to facilitate best practice sharing and champion the sustainability agenda.



Our assessments increased to cover **20%** of global spend, up from **10%** in 2019

Training and effectiveness

Our global Code of Conduct sets out clear expectations on ethical conduct and we offer training and support to help employees understand the right thing to do.

Our Code is mandated for all employees and directors of BAE Systems, our subsidiaries and controlled joint ventures wherever they are based. All employees are required to complete training annually. Joint ventures not controlled by BAE Systems are encouraged to adopt substantially equivalent standards.

All people working in our procurement function undergo training to develop and maintain the core competencies required for their role, with specific reference to financial and non-financial risk. We work with other companies in the sector to share and improve current ethical business conduct best practice.

BAE Systems is a steering group member of the International Forum on Business Ethical Conduct for the aerospace and defence industry (IFBEC), and the UK Aerospace, Defence, Security and Space (ADS) Business Ethics Network. We are also members of the Institute of Business Ethics Defence Practitioners Group. We are also an Executive Steering Group member and member of the Defense Industry Initiative Working Group.



All employees are required to complete training annually

Grievance mechanisms

We encourage employees to speak up, without retribution and anonymously if preferred, via our network of over 200 Ethics Officers or by contacting our 24-hour [Ethics Helpline](#) by phone, email or an external website, to ask for support or report a concern, including concerns in respect of human rights issues. Our [Ethics Helpline](#) is also available for third parties, including suppliers, to raise concerns or discuss issues. Details of how to contact the [Ethics Helpline](#) are included within our [Supplier Principles](#) and on our website.

During 2020, we received 1,119 ethics enquiries, a decrease of 21.8% in enquiries from 2019. This downward trend is attributed to the change in working patterns as a result of COVID-19. For example, working from home means people are less likely to observe poor behaviour in co-workers. Of the 1,119 enquiries, 6 ethics enquiries were received about our suppliers, of which, four of these enquiries required investigation, out of which one was subsequently substantiated and the other three are subject to ongoing investigations.



200+

Ethics Officers



24hr

[Ethics helpline](#)



21.8%

Reduction in ethics enquiries

What would the Company do if modern slavery was found in its supply chain?

If modern slavery or human trafficking was found within our directly contracted suppliers, we would act immediately to cooperate fully with all relevant authorities to ensure that our work is not perpetuating modern slavery. This may include terminating our relationship with the supplier if appropriate.



Approval by subsidiaries

The BAE Systems Modern Slavery Act Response 2021 has been approved by the board of directors of the following subsidiaries:

BAE Systems (Military Air) Overseas Limited

BAE Systems (Oman) Limited

BAE Systems (Operations) Limited

BAE Systems Applied Intelligence Limited

BAE Systems GCS International Limited

BAE Systems Global Combat Systems Munitions Limited

BAE Systems Marine Limited

BAE Systems Surface Ships Limited

They all delegated authority to Charles Woodburn to sign this response on their behalf.



Charles Woodburn

Chief Executive
BAE Systems plc

Signed 24 March 2021 following Board approvals.