

# UK Modern Slavery Act

Response 2024

# Contents

# Statement signed on behalf of

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.

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 United Kingdom (UK) subsidiaries have taken to identify and prevent slavery and human trafficking in our business and supply chain, in the UK, during the year to 31 December 2023.

## Approval by subsidiaries

The BAE Systems Modern Slavery Act Response 2024 has been approved by the board of directors of the following subsidiaries:

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BAE Systems (Military Air) Overseas Limited

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BAE Systems (Oman) Limited

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BAE Systems (Operations) Limited

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BAE Systems Applied Intelligence Limited

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BAE Systems GCS International Limited

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BAE Systems Global Combat Systems Munitions Limited

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BAE Systems Marine Limited

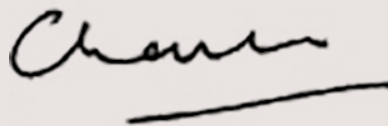
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BAE Systems Surface Ships Limited

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BAE Systems Services Limited

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



Charles Woodburn

Chief Executive  
BAE Systems plc

Signed 20th February 2024 following Board approvals.

# 2023 achievements and 2024 plans

## What we achieved in 2023

Extended roll out of modern slavery awareness training to targeted employees who are responsible for procurement in our UK businesses;

Delivered a modern slavery awareness brief at our Global Supply Chain Town Hall;

Continued to engage our supply chain on our Supplier Principles – Guidance for Responsible Business;

Continued to conduct risk based assurance with suppliers to confirm adoption of our Supplier Principles;

Continued to assess our tier 1 suppliers against high risk commodities and locations;

Developed and communicated a formal Modern Slavery Reporting Procedure within our UK businesses to escalate reports of and concerns relating to human trafficking and slavery;

Revised our global Procurement Policy to include wider sustainability considerations to support future development of procurement lifecycle management guidance;

Undertook an internal benchmark exercise, at a high level, of our UK modern slavery practices against external practice; and

Developed and implemented a debt bondage focused due diligence risk assessment for our UK labour providers.

## What we plan to do in 2024

Review our internal benchmark exercise with a view to making recommendations for adoption within our UK business;

Update business guidance to support wider sustainability considerations including the assessment and management in respect of sustainability and modern slavery;

Continue to deploy modern slavery awareness e-learning across relevant areas of our UK business;

Continue to engage our suppliers on our Supplier Principles – Guidance for Responsible Business;

Continue to conduct risk based assurance with suppliers to confirm adoption of our Supplier Principles; and

Assess our tier 1 suppliers against high risk commodities and locations.

## 2023 key performance indicators

 >900

Employees (targeted employees who are responsible for procurement in our UK businesses) have received modern slavery awareness training during 2023

 0

Number of calls to Ethics Helpline regarding human rights and modern slavery in our business operations or supply chain

 0%

Ethics cases completed or in progress regarding human rights and modern slavery in our business and/or supply chain

 2

Number of suppliers that are potentially higher risk for the purpose of modern slavery being managed and monitored

 33%

of supplier spend reviewed against revised Supplier Principles

We will continue to use the above KPIs in 2024, to evaluate the progress of our modern slavery activities/programme.

# Company overview

## Our purpose

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

We have an important role in society because we:

help our customers to provide security and safety;

contribute to the economic prosperity of the places where our people live and work;

support high value jobs in our business and in our supply chains;

value our people and their diversity so they can fulfil their potential in an inclusive and supportive working environment;

seek to identify opportunities for individuals from disadvantaged backgrounds;

support employees' rights in relation to freedom of association;

inspire and excel in the work we do - the technologies we develop and the talent we build;

develop cutting-edge technologies to sustain the competitive strength of the Company in global markets;

create best-in-class products and services by forging strong relationships with our suppliers and partners;

care for and support our local communities; and

use our knowledge and technologies to reduce the environmental impacts of our activities. We have set ourselves the target of achieving net zero greenhouse gas emissions across our operations by 2030.

## Facts

Global defence supplier and world-leading innovator

Established positions in air, maritime and land domains

Growing position in cyber security

Principal markets – US, UK, Saudi Arabia and Australia

99,800 employees in around 40 countries

2023 sales of £25,284m

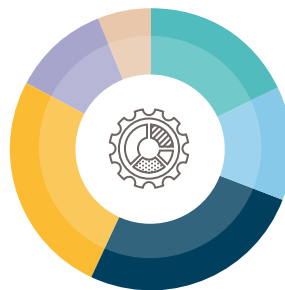
£14bn spent with 21.5k directly-contracted suppliers

We are a workforce of 99,800\* highly skilled people in more than 40 countries. Working with our customers and local partners, we develop, engineer, manufacture and support products and systems that deliver military capability, protect national security, and keep critical information and infrastructure secure.

We maintain leading positions in major defence and security markets around the world – including the US, UK, the Kingdom of Saudi Arabia and Australia – as well as established positions in a number of other international markets.

## Our unique global position and capabilities

We have a strong position in the US through the Special Security Agreement and are the leading defence contractor in the UK and Australia. In Europe, we have a considerable presence through our Swedish combat vehicle and artillery business, our role on Eurofighter, our 37.5% shareholding in MBDA and our content on US foreign military sales. We have a long-established position in the Middle East, and through the Global Combat Air Programme we are forging strong links with Japan. In addition, our diverse portfolio of capabilities in the air, sea, land, cyber and space 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. Our market positions and discriminating capabilities are aligned with enduring global defence priorities, to include our customers' requirements to operate in joint all-domain environments.



### Employees by sector\*

- Electronic Systems – **17,500 (17%)**
- Platforms & Services (US) – **11,900 (12%)**
- Air – **26,000 (26%)**
- Maritime – **27,500 (28%)**
- Cyber & Intelligence – **11,000 (11%)**
- HQ/other – **5,900 (6%)**
- Total Employees – 99,800**



### Employees by location\*

- US – **31,600 (31%)**
- UK – **45,700 (46%)**
- Saudi Arabia – **6,700 (7%)**
- Australia – **5,700 (6%)**
- Other – **10,000 (10%)**
- Total Employees – 99,800**

\* Including share of equity accounted investments

# Company overview

## Diversity, equity and inclusion (DEI)

We are developing an inclusive work environment, and creating opportunities for people and communities where we live and work.

Our social value activities positively contribute to the communities, regions and countries in which we operate and propel the business by ensuring we can attract, develop and retain a talented and diverse workforce that will take us in to the future.

We believe that diversity of thought drives innovation and performance and we have set ourselves the following gender and ethnicity goals:

**Group level** – 50% of Executive Committee members to be women by 2030;

**UK** – 30% of our workforce to be women by 2030 at the latest;

**BAE Systems, Inc.** – progress towards greater gender and racial diversity at all levels of the organisation; and

**Other countries** – targeted ambitions for other countries in which we operate.

## Gender pay gap

We have published our seventh annual gender pay gap report in line with UK regulations. For 2023, our mean gender pay gap for our UK workforce was 7.7% (2022 8.6%) and our median gender pay gap was 8.7% (2022 8.3%). This compares to the UK median gender pay gap of 14.3%(5). We rely on employing large numbers of employees with STEM qualifications and we, like other companies, face challenges recruiting women with these qualifications because there are significantly fewer women who study and work in these fields. As a result, a greater proportion of our workforce and our senior leadership population are men and this is a major factor in our gender pay gap. We continue to work hard to improve our gender balance and remain steadfast in our commitment to delivering the plans we have in place to increase the number of women in BAE Systems and support the progression of women into senior executive positions.

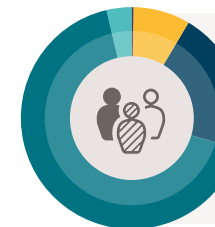
## Gender diversity

Board (14)	Male 9 (64%)	Female 5 (36%)
Senior managers (348) <sup>1,2</sup>	Male 254 (73%)	Female 94 (27%)
Total employees (91,000) <sup>3,4</sup>	Male 71,000 (77%)	Female 21,000 (23%)



### Age diversity<sup>3,4</sup>

- Under 30 years – **19,000 (21%)**
- 30 - 50 years – **42,000 (45%)**
- Over 50 years – **31,000 (34%)**



### UK ethnicity diversity

- Ethnic Minority – **1,600 (4%)**
- White – **29,000 (67%)**
- No data entered – **9,100 (21%)**
- Not disclosed/prefer not to say – **3,600 (8%)**
- Other – **<100 (1%)**

1. Senior managers has the meaning given to that term by section 414C(9) of the Companies Act 2006. 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. Executive Committee (excluding executive directors) and their direct reports.  
 3. Excluding share of equity accounted investments and rounded to the nearest thousand employees.  
 4. BAE Systems Internal Audit has reviewed the systems, processes, and controls in place to collate, validate and report this data. Based on the procedures and the evidence obtained, nothing has come to its attention that indicates the disclosures have not been properly prepared in accordance with such systems, processes, and controls.  
 5. Source: Office for National Statistics, Gender pay gap in the UK: 2023.

# Company overview

## Ethnicity pay gap

We published our first UK ethnicity pay gap report in December 2023, following our commitment to Change the Race Ratio and wider ongoing work in response to the Parker Review. We are committed to progressing racial and ethnic minority representation and in order to do this, we need to understand our ethnicity pay gap and supporting data.

We already have a number of programmes underway to progress racial and ethnic minority talent, including RISE, the KPMG mentoring programme and our ERGs. In the UK, we are also committing to growing our ethnic minority population year-on-year and aim to double ethnic minority representation amongst the senior leadership of the business (Executive Committee and Executive Committee-1) by 2026, from our 2023 baseline.

## Disclosure rates

We ask our employees to voluntarily disclose their ethnicity. As at (7 November 2023), 86.3% of our employees have disclosed their ethnicity. 82.3% of our employees identified as White, 4% identified as being in All Other Ethnic Groups and 13.7% did not respond to the survey.

## Disclosure categories

There is currently no specific guidance on ethnicity pay gap reporting, so we have mirrored our gender pay gap reporting requirements. We use two groupings - White and All Other Ethnic Groups - to ensure anonymity of employee disclosures.

## Bonus

Looking at the bonuses that our employees received, we have a mean ethnicity bonus gap of -2.3% and a mean ethnicity bonus gap of 1.0%.

98% of our White employees received a bonus compared to 93.4% of employees from All Other Ethnic Groups.

### Our ethnicity pay gap

3.9% Mean ethnicity pay gap

5.8% Median ethnicity pay gap

-2.3% Mean ethnicity bonus gap

1.0% Median ethnicity bonus gap

Please see pages 57 of our [2023 Annual Report](#) for more information.

# Our economic impact in the UK

To quantify our economic contribution, we asked Oxford Economics to produce an independent analysis of our contribution to the UK's economy in 2022. A copy of the full report, 'The Contribution of BAE Systems to the UK Economy' and an infographic can be downloaded [here](#).

For every 100 jobs at BAE Systems, we support a total of 333 jobs around the UK economy.

- 132,000 Full Time Equivalent UK jobs
- £11.1bn contribution to the UK's GDP
- £3.7bn exports
- £2.7bn total tax contribution
- £4.1bn supplier spend
- £78,570 value added productivity per employee
- £180m invested in skills and education
- £1.4bn invested in technology & R&D
- Supported UK's most deprived areas



## The report showed that our company:

Contributed £11.1bn billion to the UK's GDP in 2022, contributing a total of £360 for every £100 supported across the UK's economy

Exported £3.7bn of goods and services, and contributed £2.4 billion to the UK's trade balance in net exports;

Supported 132,000 full time equivalent jobs across the UK including 39,600 at BAE Systems itself. Of these 72% of employees work in engineering roles;

Spent £4.1 billion with 6,000 UK suppliers, supporting nearly 60,000 jobs;

Made a total tax contribution of £2.7 billion including more than £770 million paid directly by the Company;

Invested £1.451 billion in technology, research and development on behalf of customers and partners;

Was highly productive - with each employee contributing £78,570 to the UK economy - 4% higher than the national average;

Supported deprived areas - employing 14,900 full time workers and spending £730 million with supplier companies in the bottom fifth of the government's Indices for Deprivation for each of England, Scotland and Wales in 2020;


We invested £180m in skills and education programmes in 2022; We're offering permanent employment for disadvantaged young people through Movement to Work and Kickstart.

[baesystems.com/ukcontribution](https://baesystems.com/ukcontribution)

Oxford Economics - The contribution of BAE Systems to the UK Economy' - published 2022. Figures calculated from 2020 data.


# Supporting regional economies

We employ 35,300 staff at sites throughout the UK with a concentration of employees living in the following regions:




**22,400** full time employees  
**41,200** total jobs sustained  
**£450m** spent with more than 750 local suppliers

- Our site in Barrow-in-Furness, Cumbria, leads the design and manufacture of the Royal Navy's Astute and Dreadnought submarines and will commence construction of SSN-AUKUS later this decade.
- Our military aircraft sites in Samesbury and Warton, Lancashire, provide engineering, design, manufacturing and R&D for crucial programmes including Typhoon, F-35 and the Global Combat Air Programme.



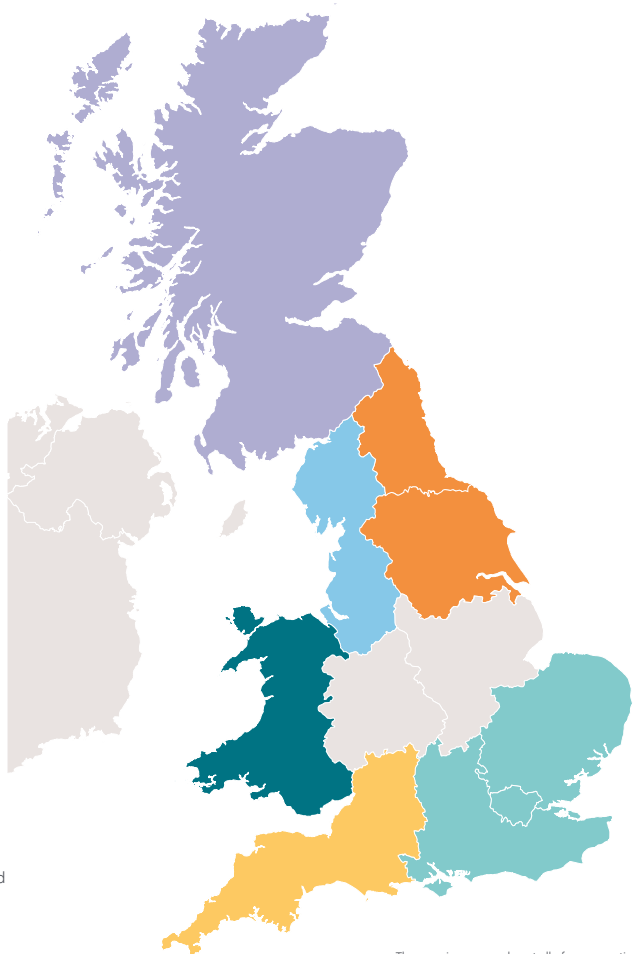

**780** full time employees  
**4,560** total jobs sustained  
**£50m** spent with more than 150 local suppliers

- Our munitions factory in Glascoed, Monmouthshire, has supported the British Army for more than 80 years and supplies 80% of the armed forces' general munitions for training and operations.
- Our team at RAF Valley on the island of Anglesey directly supports RAF training, including support for the iconic Hawk aircraft.




**1,800** full time employees  
**9,500** total jobs sustained  
**£400m** spent with almost 500 local suppliers

- Our teams operate from six sites across the South West, including Ministry of Defence facilities, as they help deliver defence programmes as part of joint project teams.
- Our experts at sites including Christchurch, Yeovil and Weymouth focus on a range of advanced technologies, from specialist communications and software systems to submarine design and cyber capabilities.

**3,900** full time employees  
**14,800** total jobs sustained  
**£500m** spent with local suppliers

- Our shipyards at Govan and Scotstoun on the River Clyde are responsible for delivering the Royal Navy's Type 26 frigates and we're investing £115m to improve our facilities and maintain these skills for the future.
- A number of employees directly support the Royal Air Force's Typhoons at RAF Lossiemouth as they deliver their vital air policing mission.



**1,300** full time employees  
**11,700** total jobs sustained  
**£260m** spent with local suppliers

- Our Aircraft Maintenance Academy trains 100 apprentices each year ready for work on the frontline of support at RAF bases around the UK.
- Our munitions sites in Washington and Ridsdale are an essential part of the British Army's supply chain, designing, manufacturing and testing a range of heavy munitions.



**8,200** full time employees  
**26,500** total jobs sustained  
**£1.15bn** spent with local suppliers

- The South East is home to our head office and several major sites, delivering a range of products and services including satellites, cyber security and advanced electronic technologies for civil and military aviation.
- Our operations at Portsmouth Naval Base and around Hampshire deliver warship support, waterfront services and infrastructure projects for the Royal Navy and develop advanced radar and naval systems.

These regions cover almost all of our operations in the UK, however more than 1,000 employees are based at sites in the Midlands and we support our customers in every part of the country.

# Our approach to governance of human rights and modern slavery

We are committed to respecting and upholding human rights wherever we operate, in the activities that fall under the full, direct control of the Company. Our employees, our suppliers and business partners are all expected to adopt high standards of ethical behaviour. We are committed to conducting business responsibly and maintaining and improving systems and processes to minimise the risk of slavery and human trafficking in our business or supply chain.

Our human rights statement outlines our approach to responsible business behaviour, including in relation to anti-corruption and the environment, as well as our workplace, supply chain, local communities and products.



## Our approach to human rights constitutes

Maintaining high ethical standards and acting in a socially responsible manner in accordance with applicable laws;

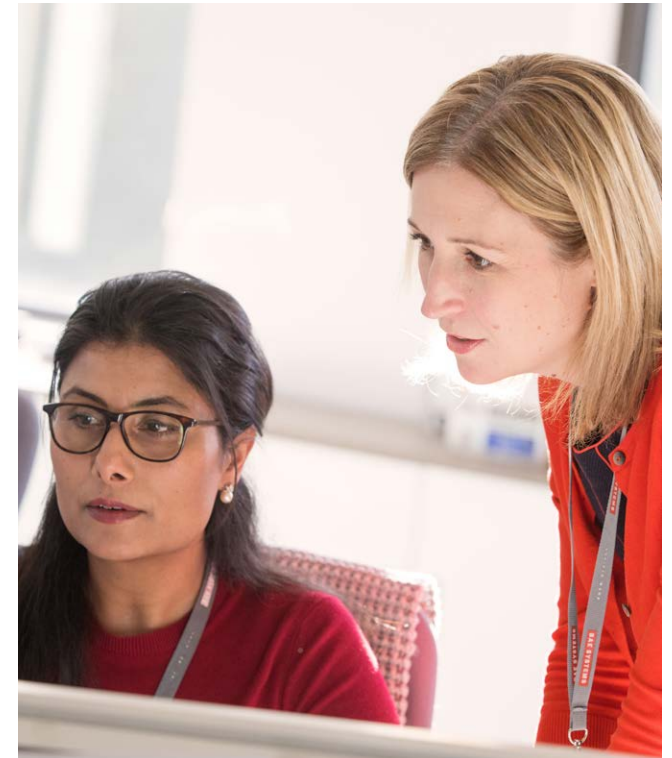
Respecting and supporting the communities in which our businesses are located;

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;

Respecting the labour and workplace rights of our employees in accordance with national laws;

Responsible product development; and

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



We are committed to conducting business responsibly and to maintaining and improving systems and processes to minimise the risk of slavery and human trafficking in our business and supply chain. For more information on our human rights approach and statement, visit [baesystems.com/human rights](https://baesystems.com/human-rights).

## 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 are part of our sustainability agenda. The Environment, Social and Governance (ESG) 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.

Our Chief Executive has primary responsibility for delivery of the business strategy. He is supported on sustainability matters by the Group ESG, Culture & Business Transformation Director who advises on sustainability strategy and direction and liaises with the business teams to ensure delivery of the strategy.

Our commitment and approach to human rights is embedded across global policies and processes in our Operational Framework (OF) and in our Code of Conduct and is regularly reviewed. Our Code is translated into Arabic, Czech, Slovak, Spanish, Swedish and UK/US English and is embedded across the business via annual training.

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

For non-controlled Joint Ventures, BAE Systems employees appointed to the Board, or comparable governing body, exert the influence they have to encourage the adoption of governance that is substantially equivalent to our own including, policies and processes, the Code of Conduct, employee training and the Ethics Helpline.

## 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; and

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

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

A self-assessment by our business and functional leaders of compliance with our OF; 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. Those risks are then monitored via our Quarterly Business Review and Chief Executive Review processes.

We continue to review our directly controlled operations and our policies to ensure they identify and mitigate human rights and modern slavery risks and incorporate best practice.

## Code of Conduct

During 2023, we updated our Code of Conduct to include changes to our internal processes and policies and incorporate external best practice and launched on 1 January 2024. The Code will be rolled out across our business, supported by employee training, from early 2024. The Code contains a section on human rights, which includes modern slavery. Our Code of Conduct is supported by conversation-based ethics training which actively encourages all employees to speak up if they have a concern or talk to a colleague, their manager, HR or a legal contact if they need guidance. This annual training offers everyone in our business an opportunity to consider some of the challenges we face in our workplace focusing on those that are particularly relevant to each team.

# Stakeholder engagement

Understanding the expectations of our stakeholders is critical to the long-term sustainability of our business. We have an ongoing dialogue with external stakeholders regarding our business and ESG agenda, which includes human rights and modern slavery.

## How can employees or suppliers raise concerns or report modern slavery?

We maintain a network of over 245 Ethics Officers and we have a 24-hour independent Ethics Helpline that can be accessed by phone, email or an external website so that employees can ask for support or report a concern, including concerns in respect of human rights issues, such as modern slavery. We encourage employees to speak up without retribution and anonymously if preferred.

Our Ethics Helpline is also available for third parties, including suppliers, to raise concerns or discuss issues. Third parties, including suppliers, can report a concern anonymously. Details of how to contact the Ethics Helpline are included within our Supplier Principles and on our website. If a call regarding human rights or modern slavery was received by our Ethics Helpline, the call would be escalated for review and allocated to a senior company representative for investigation in accordance with the Modern Slavery Reporting Procedure.

Our Ethics Helpline includes human trafficking and slavery escalation procedures introduced in 2023.

## What would the Company do if modern slavery activities were found in its operations or supply chain?

If modern slavery or human trafficking activities were found within our operations or 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 changing internal policies and processes, scoping corrective action plans for suppliers and, if appropriate, terminating our relationship with the supplier.

Details of how to contact the Ethics Helpline are included within our Code of Conduct and our Supplier Principles and on our website.



# Responsible supply chain overview

Our ambition in Supply Chain is to be responsible and sustainable across our global business. We cannot achieve this alone, therefore it is important that we collaborate and partner with suppliers to make a positive business impact over the long-term. We spend £14bn with more than 21,500 directly-contracted suppliers worldwide.

Geographic location	% of Total Spend
UNITED KINGDOM	39%
UNITED STATES	34%
SAUDI ARABIA	10%
AUSTRALIA	4%
GERMANY	3%
SWEDEN	3%
ITALY	1%
CANADA	1%
FRANCE	1%
SWITZERLAND	1%

## Governance of supply chain

Our supply chain management starts with our [Global Procurement Policy](#), which defines the requirements to be implemented by each of our sectors for the establishment of procurement control and the management of supplier related risk and sustainability considerations.

Our Global Procurement Policy requires our sectors to communicate our Supplier Principles to our suppliers. The Supplier Principles are based on our Code of Conduct and group policies. They set out what we expect from our suppliers and their supply chains and provide guidance for suppliers in relation to modern slavery and human trafficking, as well as matters such as anti-corruption, how employees are to be treated, international trade compliance, environment, counterfeit components and the BAE Systems Code of Conduct.

Throughout our relationship with our suppliers, we raise awareness of and engage them in our Supplier Principles. Suppliers are regularly reviewed throughout their contractual relationships (see Supplier due diligence and ongoing management [page 14](#)).

Our Supplier Principles expect and our [UK Standard Conditions of Purchase](#) require suppliers to comply with all applicable laws and regulations, including those related to human rights, modern slavery and the environment.

We periodically update our Supplier Principles and our UK Standard Conditions of Purchase to reflect changes in the law, regulations and other necessary requirements.



We collaborate with suppliers to deliver customer capability, spending £14bn with more than 21,500 directly-contracted suppliers worldwide.

# Supplier due diligence and ongoing management

Risk-based due diligence and audit activity is undertaken for all third parties with whom we engage, whether supplier, adviser, potential joint venture partner, acquisition opportunity or other third party. At the contracting stage we stipulate our expectation that suppliers embrace our ethical values, including those set out in our Supplier Principles.

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, taking into consideration risk of commodity and supplier location. Risk-based due diligence is carried out, as appropriate, against a number of non-financial risks, which may include:

**Responsible trading principles** - business ethics, anti-corruption 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.

We also use third party toolsets to help Compliance as part of anti-corruption due diligence checks for both new and existing suppliers.

The output from risk-based due diligence is assessed, before suppliers (often after a competitive tender) are either approved on the quality assurance and finance system, or deemed unsuitable.

In some cases, suppliers are approved with mitigation actions. Each 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 support the supplier to develop and implement their own code of conduct, or if they are not prepared to do this, we may choose to use a different supplier.

Risk-based due diligence is undertaken for all third parties with whom we engage, whether supplier, adviser, potential joint venture partner, acquisition opportunity or other third party.



\*International Organization for Standardization

# Supplier due diligence and ongoing management

Once a supplier has been approved and a contract has been executed, we continue to monitor that supplier. This includes managing any significant changes in our relationship with the supplier.

Our supply chain risk management programme is working toward providing an enterprise-wide view of supplier risk, contributing to the continuity of supply and enabling better intelligence of sub-tier supply chain risk.



## Conflict Minerals

We expect our suppliers to provide products made from materials including constituent minerals, that are sourced responsibly, and to support efforts to eradicate the use of any minerals which directly or indirectly finance or benefit armed groups that are perpetrators of serious human rights abuses.

# Our approach to human rights and modern slavery risks in our business and supply chain

Our approach to identifying and assessing human rights risks, including modern slavery 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 OAS and non-financial risk registers are reviewed regularly by our Executive Committee to monitor the status and progression of mitigation plans.

The Audit Committee monitors the Group's 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 the Group's 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 considered on a regular basis at Board and Board Committee 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 2023 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.

During 2023, our UK modern slavery working group continued to progress actions to review and strengthen how modern slavery and human trafficking risk is identified, assessed and managed across our UK businesses.



# Risk related to human rights and modern slavery

During 2023, we continued to review our directly controlled UK operations to ensure they identify and mitigate modern slavery risks and we continued to assess our tier 1 suppliers against high risk commodities and locations.

## Mitigating operational modern slavery risks

We considered the location of our employees and the type of work undertaken as the basis for assessing and understanding the modern slavery risks in our UK operations. Insofar as our operations are concerned, the services that we provide directly to our customers are typically of a highly complex nature requiring a high level of skill, training and education. Further, all directly employed staff in our UK businesses are required to be UK citizens, permanent residents or have the legal right to work in the UK.

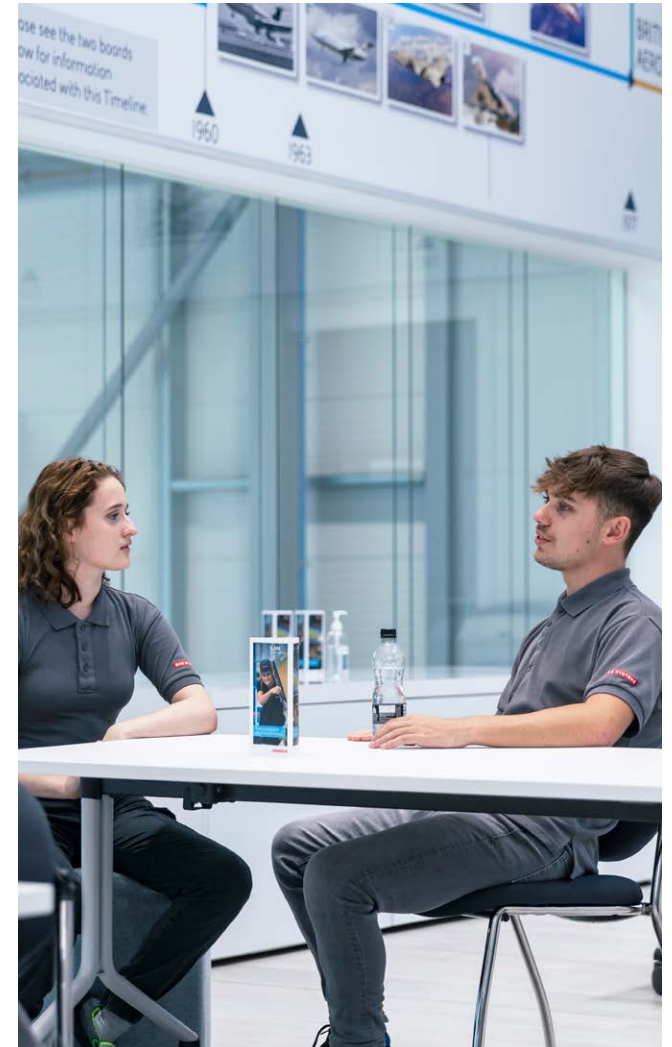
Due to the nature of the industry we work in and the customers we support, all potential employees and contingent workers for our UK businesses go through a pre-employment vetting process. Subject to local laws in each jurisdiction, individuals are verified for identity, employment and academic history,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

Risks may potentially arise from the engagement of third party contracted labour performing work on our behalf. Where we work with third party recruitment service providers, they are subject to 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 and they must handle identification documents in accordance with applicable personal information protection requirements.

During 2023, we developed debt bondage focused due diligence for key labour providers to our UK businesses. We built upon existing Supplier risk assessment activities to include a specific focus on Debt Bondage risk. A dedicated questionnaire was developed and issued to our key Agency Suppliers (via our Shared Services Organisation). Specific areas of focus included the imposition of recruitment fees, retention of identity documents and correct and fair payment of wages. The 2023 assessment identified no significant areas of concern across the sample, however, assessment will continue to be conducted on an annual basis.

We maintain processes designed to ensure that all employees have a contract of employment 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. Our processes are designed to ensure we do not retain any original 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 maintain processes designed to comply with child labour laws and to ensure that we will not employ anyone under the age of 15 or, where the mandatory school leaving age is higher, that 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.



# Risk related to human rights and modern slavery

## Mitigating supply chain modern slavery risks

We continue to assess modern slavery risks within our tier 1 supply chain based on where our suppliers are located (geographical risk) and the goods and services provided (products and services risk). This annual assessment focuses on risks in our directly contracted suppliers.

Suppliers who might be deemed as higher risk are identified through analysis of internal data sets and using external regulatory guidance, for example, the U.S. Department of Labor's 2022 List of Goods Produced by Child or Forced Labour which is produced in accordance with the Trafficking Victims Protection Reauthorization Act (TVPRA).

During 2023, we continued to conduct risk assessment activities against our active Supply base locations and product categories, building to a twice yearly assessment cycle. Where suppliers are identified as potentially higher risk for the purposes of Modern Slavery, the relevant areas of business are advised and requested to provide a statement against actual risk and, where relevant, mitigation activities.

### Engagement and Awareness

We continued to communicate and raise awareness of our Supplier Principles during 2023, and are looking at opportunities to build on the quality of these engagements through 2024.

We also continued to engage our UK supply chain on modern slavery, raising awareness of the importance of conducting business responsibly and maintaining and improving systems and processes that reduce the risk of slavery and human trafficking. Within this awareness, we highlight resources available and promote our Ethics Helpline as a way to seek advice and report concerns.

To support our procurement employees in identifying and managing modern slavery risks, we identified individuals across our procurement teams to receive our mandated modern slavery awareness training. Individuals selected procure goods and/or services from a category that could potentially be recognised as higher exposure for the purpose of modern slavery. Our assessment of goods and services, that may be higher risk for the purpose of modern slavery, was based on the U.S. Department of Labor's 2022 List of Goods Produced by Child Labor or Forced Labor and the general supplier categories in our procurement system.

During 2023, over 1,400 individuals, received modern slavery awareness training (>900 of these were within our UK businesses engaged in procurement related activities). During 2024, we will continue to build on the deployment of awareness to ensure that relevant employees are made aware and remain aware of the topic. This will be delivered through the maintenance of both initial (e.g. for new starters) and refresher training.

We also continued supply chain assurance activity to assess adoption of our Supplier Principles. This activity supports us in identifying and mitigating risks across our supply chain. Our assessments covered 33% of global spend. This activity will continue in 2024.

### Benchmarking our programme

During 2023, we benchmarked at a strategic level our UK modern slavery practices against external practice. We are reviewing the findings of this benchmark and will consider what recommendations to make with respect to our future programme.

### Standard terms and conditions

To further mitigate risk across our supply chain, in the UK our [Standard Conditions of Purchase](#) includes provisions on modern slavery and the Real Living Wage.

### Procurement Governance

During 2023 we set out to update our functional procurement guidance, starting with our global Procurement Policy in order to embed sustainability within the procurement governance system. We revised the Policy to include wider sustainability considerations, including, where applicable and relevant to the market they operate in, engaging suppliers on our sustainability ambitions and Supplier Principles, including environmental, social and governance considerations across our procurement lifecycle and undertaking supplier assurance activities, using our Supplier Principles as the framework.

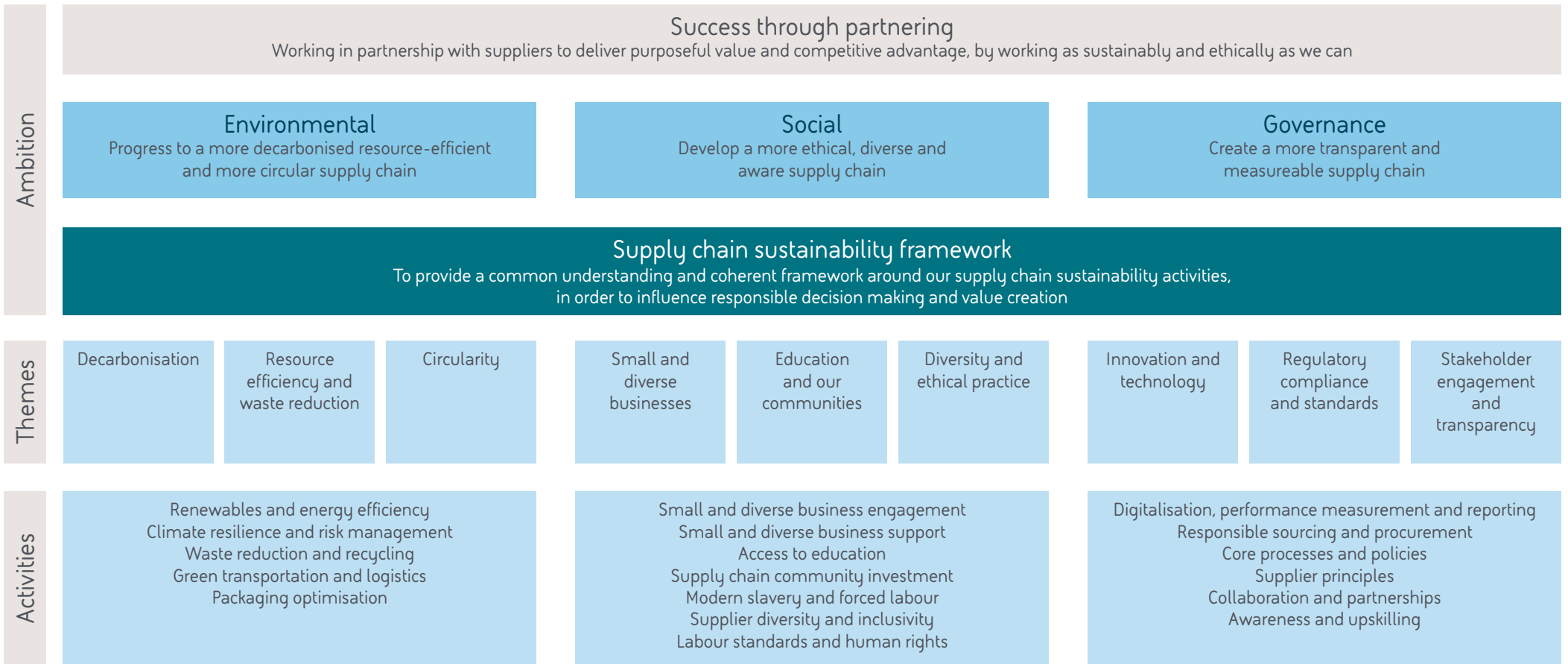
We also developed our Sustainability Supply Chain framework (see [page 19](#)) which builds on our Policy statement by defining our specific areas of ESG focus, including that related to Modern Slavery.

During 2024, we will aim to continue to update business guidance to support wider sustainability considerations including the assessment and management in respect of sustainability and modern slavery.

### UK Prompt Payment Code

BAE Systems is a signatory to the UK Prompt Payment Code and we are committed to paying our suppliers promptly and in accordance with agreed terms. Adoption of appropriate payment practices is of significant importance to us, to ensure that we are not adding any unintentional pressure on suppliers. Ensuring that we pay invoices on time is a key focus for our UK businesses. The Board is informed of any significant issues concerning our commitments under the Code.

# UK Supply Chain Sustainability framework - partnering with purpose



# Appendix

## Glossary of terms

**ADS** – (Aerospace, Defence, Security & Space) ADS is the UK trade association advancing leadership in aerospace, security, defence and space, to enable prosperity and clean, secure growth for our nation.

**Code of Conduct** – Our global Code of Conduct lays out the standards and behaviours that are expected of all employees. It guides them in acting responsibly and ethically in everything they do and outlines the ways in which they can seek help and guidance. Our Code is supported by a training and engagement programme to empower them to make ethical decisions. All employees are required to complete ethics training annually alongside e-learning programmes of role-specific training, for example, export controls.

**Ethics Helpline** – BAE Systems' Ethics Helpline is available for anyone to call to tell us about situations where they think the law or our standards may not have been upheld, or where an issue or concern they have reported is not being dealt with properly. Calls to the Ethics Helpline are free and lines are open 24 hours a day, seven days a week.

**ISO14001** – ISO (International Organization for Standardization) is an independent, non-governmental international organisation that brings together experts to share knowledge and develop voluntary, consensus-based, market relevant international standards. ISO14001 sets out the criteria for an environmental management system and can be certified to. It maps out a framework that a company or organisation can follow to set up an effective environmental management system.

**Joint Venture (JV)** – An Entity in which BAE Systems and one or more other parties have ownership interests and through which business activity is undertaken together.

**JOSCAR** – The Joint Supply Chain Accreditation Register is a collaborative tool used by the aerospace, defence and security industry to act as a single repository for pre-qualification and compliance information.

**Living Wage Employer** – Accredited Living Wage employers have been certified by the Living Wage Foundation for their commitment to paying their staff according to the cost of living.

**Living Wage Foundation** – The Living Wage Foundation campaign for the idea that a hard day's work deserves a fair day's pay. They celebrate and recognise the leadership of responsible employers who choose to go further and pay a real Living Wage based on the cost of living.

**Operational Assurance Statement (OAS)** – The Operational Assurance Statement is BAE Systems' key governance process which requires that a return is completed every six months by each operational and functional business head, reporting their formal view against such matters as compliance with law and regulation, ethical business conduct, financial controls, risk management, compliance with business planning processes, health and safety, conflicts of interest, delegated authorities, appointment of advisers and product safety.

**Operational Framework** – The Operational Framework sets out how we do business across BAE Systems, and encapsulates our values, policies and processes, together with clear levels of delegated responsibility aimed at ensuring that all of our employees and businesses act in a clear, accountable and consistent manner. It is reviewed and approved annually by the Board.

**Real Living Wage** – The real Living Wage is an independently calculated UK wage rate that is based on the cost of living and is paid voluntarily by UK businesses.

**Supplier Principles** – Our 'Supplier Principles – Guidance for Responsible Business' outline a set of 'best practice' expectations to clarify what we expect from our suppliers and their supply chains. The Principles reflect the standards that we hold for ourselves at BAE Systems.

**Tier 1 Suppliers** – Tier 1 suppliers are suppliers that BAE Systems directly contract to support operations/customer deliverables.

**Trafficking Victims Protection Reauthorization Act (TVPR)** – The TVPRA is US legislation which enhances efforts to prevent human trafficking, identify and support victims, and ensure offenders and those who facilitate trafficking are held accountable. The Bureau of International Labor Affairs (ILAB) maintains a list of goods and their source countries which it has reason to believe are produced by child labor or forced labor in violation of international standards, as required under the Trafficking Victims Protection Reauthorization Act (TVPRA) of 2005 and subsequent reauthorizations.

**UK Modern Slavery Act 2015** – The Modern Slavery Act 2015 is designed to combat modern slavery in the UK and consolidates previous offences relating to trafficking and slavery. The Act gives law enforcement the tools to fight modern slavery, ensures perpetrators can receive suitably severe punishments and enhances support and protection for victims. It received Royal Assent and became law on 26 March 2015.

**UK Prompt Payment Code** – The Prompt Payment Code (PPC) is a voluntary code of practice for businesses, administered by the Office of the Small Business Commissioner (OSBC) on behalf of the UK Government. It was established in December 2008 and sets standards for payment practices between organisations of any size and their suppliers.

**UK Standard Conditions of Purchase** – BAE Systems' standard conditions of purchase, used by BAE Systems when purchasing from suppliers on 'back of order' terms and conditions.