



# UK Modern Slavery Act

Response 2020

# BAE Systems Modern Slavery Act **Response 2020**

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 2019.

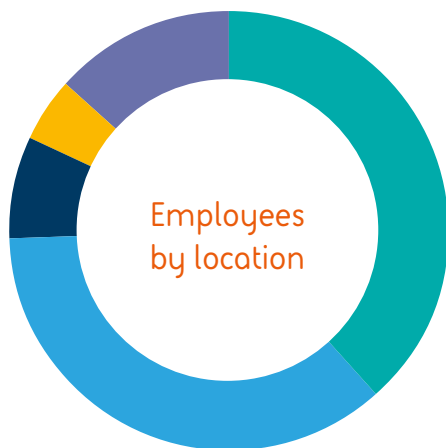
We are committed to conducting business responsibly and to maintaining and improving systems and processes that reduce the risk of slavery and human trafficking in our business and supply chain.

## Organisation Structure – Our Company Overview

At BAE Systems, we provide some of the world's most advanced, technology-led defence, aerospace and security solutions. We employ a skilled workforce of 87,800 people in more than 40 countries. We help our customers to stay a step ahead when protecting people and national security, critical infrastructure and vital information.

BAE Systems has a diverse portfolio, broadly balanced between an enduring services and support business, long-term platform and product programmes, electronic systems, and activities in cyber and intelligence.

Our largest customers are governments, but we also sell to large prime contractors and commercial businesses.



- UK – 33,800
- US – 31,700
- Saudi Arabia – 6,500
- Australia – 4,300
- Other – 11,500

**Total Employees – 87,800**

Our UK subsidiaries that are required to prepare a Modern Slavery Act Statement are:

- 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

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. We work closely with local partners to support economic development by transferring knowledge, skills and technology.

Our tier one suppliers are based mainly in the following countries: Australia, Canada, Denmark, France, Germany, Italy, Israel, Saudi Arabia, Kuwait, Netherlands, Norway, Spain, Sweden, Switzerland, UK and the US.

## Policies – Human Rights and Our Governance Arrangements

We are committed to respecting human rights wherever we operate, within our sphere of influence. 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 and in our supply chain.

Our Board Corporate Responsibility Committee has oversight of our human rights approach, which falls into our Sustainability agenda.

Our [Code of Conduct](#) and other global policies and processes mandated under our Operational Framework, together with our supporting principles and guidance on responsible trading and suppliers, 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, including human rights, working hours, harassment and unlawful discrimination, anti-whistleblowing, slavery, human trafficking and child labour.

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 and liquidity. 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 2019 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.

During 2019, we undertook supply chain assurance activity to assess compliance with our Supplier Principles and the UK Modern Slavery Act. Our assessments covered 10% of global spend. There were 12 low-level risks identified and resolved. We also held supplier events across our business to facilitate best practice sharing. This assurance activity and sharing of best practice will continue in 2020.

## 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 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, including human rights 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.

## 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 management process, outlined below.

Our people processes, outlined within our global People Policy, ensures that where required by law or contract, each employee receives a contract or recruitment agreement outlining matters which may include remuneration, job role, rest and holiday periods, training and development and notice periods.



We are committed to  
respecting human rights

## Our Procurement Practices and Supply Chain Overview

We work with over 22,000 directly contracted suppliers and partners globally and we recognise the role they play in supporting responsible business. Our relationships with suppliers are often long-term due to the length of our product lifecycles, so we aim to work with suppliers who embrace standards of ethical behaviour consistent with our own. During 2019, we spent over £11bn across the world with directly contracted suppliers.

We purchase a wide range of products from our directly contracted supply base. These products are either integrated into the products and solutions we sell to our customers (direct purchases), or are used to support the efficient running of our internal operations (indirect purchases).

Direct purchases vary in complexity from raw materials such as steel for our ship-building, aluminium and titanium for our aircraft manufacture, to complex electronic systems and propulsion systems for our air, sea and land vehicles. Other direct purchases include platform support, maintenance services, and IT solutions including those for cyber protection.

Purchases can be 'off the shelf' catalogue items such as electronic components, to semi-custom 'modified off the shelf' items such as power supplies, through to fully bespoke unique major subcontract items such as propulsion systems, flight control systems, weapon systems and their associated ground test equipment.

Indirect purchases include travel providers, manufacturing consumables, temporary subcontract labour, facilities management and construction.

Our global Procurement Policy sets out the requirements for supplier engagement, including the management of supplier-related risk and ways of working as defined by our Supplier Principles. Compliance with this policy is monitored via our Operational Framework, and supplier-related risk is managed in the same way as other business risk.

Our Global Procurement Council provides governance and oversight and consists of procurement directors from across our Company who manage and control supplier relationships, category management of supplier products, policy and process, and training for our procurement teams.

Our Supplier Principles set out our expectations with regards to human rights, modern slavery and human trafficking, within our supply chain. We require our suppliers to comply with all legislation in the jurisdiction in which they operate and encourage them to meet the same or similarly high standards equivalent to our own on ethical conduct, labour welfare, health and safety, environment, civil liberties and human rights.

Our Standard Conditions of Purchase include a clause regarding our Supplier Principles and the expectations set within them. Supplier compliance with our Standard Conditions of Purchase is reviewed and considered during the supplier due diligence, selection and approval process and during ongoing supplier management and quality assurance.

We have also supported the development of the defence industry's IFBEC Model Supplier Code of Conduct, which includes expectations for suppliers throughout the aerospace and defence industries regarding human trafficking and child labour.



We aim to work with suppliers who **embrace standards of ethical behaviour** consistent with our own

## Due Diligence – Our Supplier Selection Process

To streamline and standardise data collection and due diligence for suppliers across the industry, 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 96% of suppliers were engaged with the Principles throughout 2019.

Prior to approving and selecting suppliers, we outline the products and services we need and short list potentially suitable suppliers. During this supplier evaluation stage, due diligence is carried out on suppliers against the following non-financial risks:

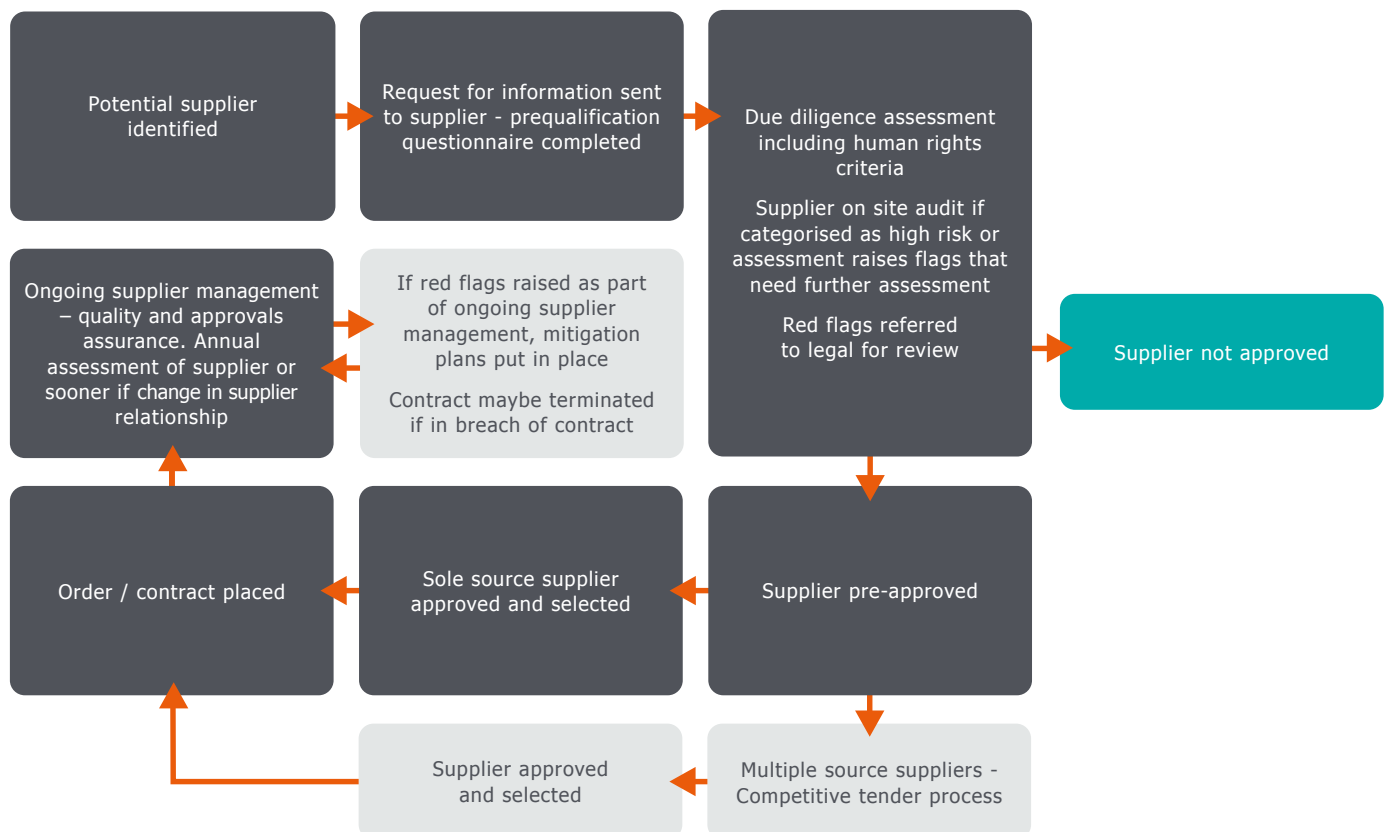
- Responsible Trading Principles - business ethics, anti-corruption and anti-bribery, governance and legislation;
- Human rights – working hours, harassment and unlawful discrimination, whistleblowing line, slavery, human trafficking and child labour;
- Health and safety – workplace and product safety;
- Environment – impact of operations and products;
- Management systems – environmental management systems certified to ISO14001\*; and
- Responsible sourcing including conflict minerals.

From this analysis the risks are assessed, suppliers are then categorised as low, medium or high risk, 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.

We are committed to  
conducting business  
responsibly



\* 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 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.

## Grievance Mechanisms

We encourage employees to speak up, without retribution and anonymously if preferred, via our network of over 160 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.

## What would the Company do if Modern Slavery were found in its Supply Chain?

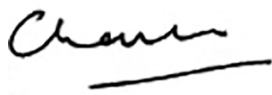
If modern slavery or human trafficking were found within our directly contracted suppliers, we would act immediately to work with the supplier and relevant authorities to understand the circumstances of what has been found and to put in place corrective actions that help the affected workers and protect them from further harm. If a supplier was unwilling to address the issue, then corrective action may include termination of contracts and selection of an alternative supplier.

## Approval by Subsidiaries

The BAE Systems Modern Slavery Act Response 2020 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 25 March 2020 following Board approvals.

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**For more information:**

BAE Systems plc  
6 Carlton Gardens  
London SW1Y 5AD  
United Kingdom

**t:** +44 (0) 1252 373232  
**w:** [www.baesystems.com](http://www.baesystems.com)

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