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Corporate Social Responsibility Report 2003

dialogue

responsible
defence

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About BAE Systems

BAE Systems is an international company engaged in the development, delivery and support of advanced defence and aerospace systems in the air, on land, at sea and in space. The company designs, manufactures and supports military aircraft, surface ships, submarines, radar, avionics, communications, electronics and guided weapon systems. It is a pioneer in technology with a heritage stretching back hundreds of years. It is at the forefront of innovation, working to develop the next generation of intelligent defence systems.

BAE Systems has major operations across five continents and customers in some 130 countries. The company has more than 90,000 people and generates annual sales of approximately £1.2 billion through its wholly-owned and joint venture operations.

BAE Systems, innovating for a safer world.

Message from the Chief Executive



We are proud of the role we play as one of the leaders in the defence sector and as part of this we recognise our specific responsibility to understand the concerns of others.



I require all aspects of our business to demonstrate performance and value. The delivery of our CSR Agenda is no exception. During 2003 we have ensured our CSR activities are fully aligned with our efforts to deliver our key business objectives.

CSR reports can become lists of data and good case studies, but to be of value they should reflect the real issues facing the business. These are not always 'easy' issues or the ones that make the best pictures. While we use metrics to monitor much of our business, we also recognise the value of stakeholder engagement in shaping and driving our CSR agenda. Accordingly, the theme of this report is dialogue.

Much of the feedback on last year's report and performance was positive, acknowledging the progress that we have made. An example is our inclusion as the first defence company in the Dow Jones Sustainability Index in 2003.

We also recognise the value of those who disagree or have an alternative viewpoint.

To some of our stakeholders, defence is a controversial industry. We are proud of the role we play as one of the leaders in the defence sector and as part of this we recognise our specific responsibility to understand the concerns of others. We aim to provide information and demonstrate through our performance that BAE Systems is both a responsible corporate citizen and a responsible defence company.

In this report we have included information on how some specific areas of our business are regulated and invited Roger Cowe, a leading CSR journalist, to present his views on the responsibilities of a defence company (page 10). We welcome your comments on this piece.

A recent study produced by Oxford Economic Forecasting (page 7) assesses the economic contribution of BAE Systems to the UK. The significance of our presence brings with it a huge responsibility to the communities we impact, the people we employ and our customers and partners. We believe we deliver on that responsibility, not just in the UK but across all our operations, through the policies and practices which govern our workplace and operating environment. We recognise that this can only be maintained through continual review and improvement.

I firmly believe that CSR is part of the everyday management of a responsible business and I expect all our employees to make it an integral part of all that they do. I am proud of the progress we are making in this area and am fully committed to us delivering on our CSR agenda.

Mike Turner
Chief Executive, BAE Systems

Our values...

All employees are expected to maintain the highest standards of personal conduct and integrity at all times in the conduct of the Company's affairs.

Performance – No. 1 priority
We will set targets to be the best, continually challenging and improving the way we do things, both as individuals and as members of our teams.

Customers
We will delight all our customers, both internal and external, by understanding and exceeding their expectations.

People
All our people will be encouraged to realise their full potential as valued members of the team.

Partnering
We will strive to be the partner of choice, respected by everyone for our co-operation and openness.

Innovation and technology
We will encourage a hunger for new ideas, new technologies, and new ways of working, to secure sustained competitive advantage for our Company.

... and what they mean in practice

PERFORMANCE : TORNADO GR4 MID-LIFE UPDATE PROGRAMME

In 2003, BAE Systems completed a challenging contract to upgrade 142 Tornado aircraft for the UK Royal Air Force (RAF).

Demanding timescales and tight budgets made it vital to work closely with partners and suppliers to ensure successful delivery. We also kept the RAF well informed of progress to ensure we fully understood and met their requirements.

We completed the upgrade on schedule and within budget, with the 142nd aircraft returned to service in mid-2003.

By focussing on continual improvement the project team was able to further develop its capabilities as the project advanced - the final aircraft was upgraded in 40% of the time it took to modify the first.

RAF Air Chief Marshal Sir Malcolm Pledger said: "BAE Systems has played a critical role in [the programme] and should justifiably take a very great pride in the outcome."



PEOPLE : BAE SYSTEMS GRADUATE CONFERENCE

Everyone at BAE Systems has an important role to play in helping to achieve company goals.

Our annual Graduate Conference aims to motivate recent recruits and inspire them to reach high standards in their work.

The theme in 2003 was Delivering on Commitment. Over 320 graduates and 180 managers and employees attended from across BAE Systems and many of

our joint venture partners. Attendees heard from inspirational guest speakers, including the explorer Sir Ranulph Fiennes who spoke about how he had achieved his goals.

Members of the Executive Committee, including Chief Operating Officer Steve Mogford, briefed graduates on BAE Systems corporate strategy and answered their questions.

The conference is organised by a team of 10 recent graduates and provides an excellent opportunity for recruits to meet, share ideas and build networks.

"Each of the attendees walked away with a greater understanding of the company, a clearer perspective of the opportunities within and the drive to find passion in their work." Tara Rizzo, Engineering Manager, BAE Systems North America



Sir Ranulph Fiennes

CUSTOMERS : NIMROD

Good business performance includes acknowledging when things have gone wrong and responding promptly to customer concerns.

In 2002, the Nimrod programme – an aircraft contract with the UK Ministry of Defence – was publicly identified as a project in crisis because of time and cost overruns. This affected our share price and investors' confidence.

Since then, the Nimrod management team have turned the project around. As well as introducing new management tools and processes to cut costs, the team has worked to improve the attitude of those on the project.

A cultural change programme for employees was introduced. This included training that helped employees adopt new ways of working. More than 1,150 training days were completed in 2003.

Recognition and reward structures were changed to ensure that strong performers were rewarded.

Our customer has recognised the huge improvement in performance. BAE Systems and its project partners received an excellence award in 2003 for their work on supporting the existing Nimrod fleet from the UK Minister for Defence Procurement, Lord Bach.

Speaking to BAE Systems and other award winners, Lord Bach said: "All of the organisational elements that deliver defence capability to the front line are represented here... What you do, what you've achieved, is recognised and celebrated by your peers and customers alike as excellent."

PARTNERING : A MENTOR-PROTÉGÉ RELATIONSHIP

Through training, professional advice and support, BAE Systems can help its business partners develop their capabilities and ensure they provide us and our customers with the best service.

BAE Systems Mission Solutions in the US has implemented a mentor-protégé agreement with Geotopo, a small specialist mapping company. The agreement is part of a US Department of Defense

programme to help small disadvantaged or minority-owned businesses develop their capabilities and compete successfully for defence contracts. Geotopo is a 10% minority-owned business and a sub-contractor to BAE Systems on many government contracts.

Under the three-year agreement, BAE Systems will provide training to help Geotopo refine their digital mapping

capabilities, establish an ISO 9000 quality programme and develop the firm's general business management practices. Geotopo employees can also receive specialised training at the University of California at Riverside and Riverside Community College, as part of the agreement.

Karl Pierce, President, Geotopo, comments: "We have enjoyed a good working relationship with BAE Systems, and this programme will prove to be extremely important to the long-term growth and success of our firm."

INNOVATION AND TECHNOLOGY : A CULTURE OF INNOVATION

Innovation, using the creative talent of our employees to develop new ideas and technology, is vital to our business.

BAE Systems' Ventures Incentive Programme stimulates innovation by giving employees a share in the revenues gained from commercialising their ideas.

The programme, launched in 2003, encourages employees to offer ideas that may be suitable for commercial exploitation. The employees then help adapt their ideas to meet the needs of customers.

Seventy ideas were submitted in 2003. These include LEARRNN, a technology that is under investigation for a number of applications including real-time digital signal and image processing, and accelerated database search. LEARRNN has also shown initial promise when applied as a real-time image filter to medical ultrasound images.

It is hoped that the technology may be useful in enhancing the utility of ultrasound when applied to breast cancer screening.

“BAE Systems is one of the few companies with an upgrade since the last annual review. The management upgrade is due to the publication of their second CSR report, increased willingness within the company to ‘stick their head above the parapet’ on key defence contract-related issues, and further clarity on defence sales.” Morley Fund Management

Objectives 2004

We regularly review and update our CSR activities to ensure we make progress on key issues. Our objectives for 2004 are to:

- 1 Conduct a worldwide survey of employees to review progress on CSR since 2002.
- 2 Extend our ethics hotline to operations in Australia.
- 3 Partner with the UK Health & Safety Executive to address key areas of safety performance.
- 4 Introduce an external verification programme for safety and environment data.
- 5 Review energy management and establish a strategy to improve energy efficiency and reduce consumption.

Progress 2003 – How did we do?

WE SET OURSELVES FOUR OBJECTIVES FOR 2003. HERE WE REPORT OUR PROGRESS:

CONTINUE AND IMPROVE COMMUNICATION OF OUR CSR ACTIVITIES

- Established a CSR website at www.baesystems.com.
- Communicated our CSR Report 2002 to all employees through our intranet site.
- Sought feedback from stakeholders via email and a pre-paid card in our CSR report. Examples of feedback are included throughout this report.
- Nominated employees in our Business Units to communicate and co-ordinate local CSR activities.
- Participated in several benchmarking surveys to understand where we are making progress and to identify areas to improve (page 8).
- Met with key stakeholders including socially responsible investors, graduates and trade unions to discuss CSR issues.

IMPROVE DIVERSITY ACROSS OUR OPERATIONS

- Achieved accreditation under the Framework for Excellence in Equality and Diversity at our Prestwick site and RO Defence Business Unit. Prestwick is the first manufacturing site in Europe to achieve silver status under this initiative. RO Defence was awarded bronze.
- A high-level review led by our Group Human Resources Director looked at implementation of our diversity policy. The management of diversity has been restructured as a result, to improve performance in our Business Units (see page 13).
- A number of achievements were recorded by our women engineers, including Grace Johnstone who was recognised as Young Woman Engineer of the Year (see page 15).

ESTABLISH IMPROVEMENT TARGETS FOR SAFETY AND ENVIRONMENT PERFORMANCE

- Established health, safety and environmental targets for the majority of our Business Units. We report progress on these issues on page 19.

ENCOURAGE HIGH PERFORMANCE

- Almost 45% of eligible senior managers participated in performance-focused training during 2003.
- Coaching is provided to address poor performance among executive employees. Terminations among this group were 3.5% in 2003, compared with 4% in 2002, and 4.5% in 2001.

OTHER HIGHLIGHTS FROM 2003

- BAE Systems became the first defence company to be included in the Dow Jones Sustainability Index.
- Our 2002/2003 Charity Challenge Campaign raised £5.7million and reported 3,500 volunteer days for charities world-wide.
- We reduced energy consumption by 33% across the Company.
- Our Platform Solution Sector at Johnson City, New York, became the first North American site to be certified to the OHSAS 18001 occupational health and safety management standard.
- Established an Environmental, Safety, and Health Council for our North American operations.
- Naval Ships recruited 112 apprentices, the company's largest-ever intake (pictured below) and was awarded the Ron Taylor Award for Quality in Training Delivery.
- Carried out Occupational Health & Safety Audits across our operations in Australia and Saudi Arabia.
- Increased the number of sites certified to the environmental management standard ISO 14001.



Our business

BAE Systems is an international company that designs, manufactures and supports military aircraft, surface ships, submarines, radar, avionics, communications, electronics and guided weapon systems. Our aerospace and naval defence systems provide nations with the means to protect themselves, and peacekeepers with the tools to do their job.

We also contribute to the societies in which we operate by generating wealth and distributing it to a range of stakeholders, including employees, suppliers and governments.

We have many responsibilities, as a major employer, a neighbour to the communities around our sites, a key supplier to our customers and a significant customer to our suppliers.

As a defence company we have specific, additional responsibilities. We must fully understand and comply with laws and controls governing defence exports everywhere we operate, and ensure we meet the highest standards of conduct in our work.

Statutory controls on defence dealing

BAE Systems operates within a tightly regulated environment and is subject to legislation governing defence exports. This aims to ensure that exports of goods and technology do not fall into the wrong hands.

We are also subject to the UK Export Control Act. This gives the UK Government powers over intangible (e.g. electronic or digital) transfers of military and other sensitive technology, and over defence trade between third parties. It also provides for transparency and accountability.

In the US we are subject to regulatory controls which include the Arms Export Control Act, the Export Administration Act and Treasury embargoes.

We have our own internal controls (see far right) to ensure that we comply with these regulations. Michael Lester, our Group Legal Director, is the board member responsible for ensuring our compliance with export controls and the UK Government's Code of Practice.

See www.dti.gov.uk/exportcontrol for further details.

Anti-corruption measures

We demand and expect honesty, integrity and fairness in all aspects of our business. We are committed to comply with the law in every country where we operate. This includes laws implementing the OECD Anti-Bribery Convention and the US Foreign Corrupt Practises Act. We will not tolerate bribery or other attempts to improperly influence the decisions of customers and suppliers.

We have an anti-corruption compliance programme in place throughout the company. This includes robust procedures governing transactions with marketing consultants, the proper use of corporate hospitality and our procurement processes. This is supported by an awareness-training programme and underpinned by a clear statement that infringements will result in disciplinary action.

The valuable experience available from our US colleagues under the Foreign Corrupt Practices Act has also been drawn upon and a review of our policies has been undertaken by external lawyers in the UK and the US. Our procedures accord with anti-corruption rules promulgated by the International Chamber of Commerce.

We continually review and monitor our policies and procedures in this area and take note of external progress in improving anti-corruption measures across all industries, including the recent signing by more than 100 nations of the UN Convention against Corruption.

UK CRITERIA FOR ARMS EXPORT

A licence will be denied if the export is inconsistent with:

- The UK's international obligations
- Respect for human rights in destination country
- Tension and/or armed conflict in destination country
- Regional stability
- National security of the UK and its allies
- The destination country's attitude to international law, terrorism etc
- End user concerns
- Sustainable development of the destination country.

INTERNAL CONTROLS

BAE Systems has its own internal controls to ensure compliance with external regulation. It is our policy:

- To maintain an active and open dialogue with relevant government departments in the territories in which we operate to ensure compliance with the government policy and the law and regulations of those territories governing the export of our products
- To comply at all times with the conditions of export licences and other regulations and controls applicable to the sale of military and dual-use equipment and technology
- To respect the values of the international community and the laws of those countries where we conduct our business.

ECONOMIC CONTRIBUTION

BAE SYSTEMS ECONOMIC CONTRIBUTION (2003)*	
Wages and salaries**	£2,580 million
Social security costs**	£225 million
Tax paid	£225 million
NOTE	
*Additional information on our financial performance and economic indicators is in our Annual Report & Accounts 2003	
**Refers to wholly owned business	



OUR CONTRIBUTION TO THE UK ECONOMY

BAE Systems is the principal defence contractor in the UK and the Government is one of our major customers.

There are concerns about the cost to taxpayers of defence contracts but little is known about the contribution the sector makes to the economy. This is why in 2003 we commissioned a study by Oxford Economic Forecasting (OEF), an independent consultancy, to assess the contribution that BAE Systems makes to the UK economy.

OEF studied the wholly owned businesses of BAE Systems and did not seek to capture the economic benefit the UK derives from Airbus and joint venture arrangements with other companies.

The study looked at our contribution in 2002, through direct expenditure, for example salaries, tax and procurement. It also examined our indirect contribution. This is the activity and employment supported by supplier companies that sell to BAE Systems. Every year BAE Systems spends around £4 billion with suppliers on equipment, components, raw materials and other goods and services. About 78% is sourced in the UK.

Employment was one of the most important contributions noted in the study. BAE Systems employed 39,084 people in the UK in 2002. This is equivalent to total employment in both the office machinery and computer sectors,

and represents 1.1% of jobs in the UK manufacturing industry. Indirectly our activity supported a further 49,060 jobs in the supply chain and 22,320 jobs through spending by BAE Systems dependent employees.

The company invested £500 million in 2002 in fixed capital, for example buildings and high-technology machinery. This is 160% higher than the UK average fixed capital investment per employee and is an important contribution to the UK economy.

OEF looked at our contribution through taxes and export revenues. In 2002 BAE Systems paid £1,150 million in tax in the UK. Exports were worth £3 billion, 1.6% of total UK goods exports. The company imported just under £1 billion in 2002, leaving a positive contribution to UK trade of over £2 billion. This reduced the deficit on the UK's balance of payments by 11%.

In 2002 £1.21 billion was channelled into research and development through BAE Systems by the UK Government and the company. This accounts for around 6% of total UK R&D expenditure and 7.5% of R&D investment by the top 600 companies in the UK. The study found that this spend was used efficiently to generate higher productivity within BAE Systems and across the economy.

OEF found that the total value added by BAE Systems to the UK economy was worth £2,294 million. Value added reflects productivity levels and is calculated as the difference between the costs of goods and services bought in and the total pre-tax revenue generated by the company. Our total value added is equivalent to £57,000 per employee, 63% higher than the UK average. This high productivity reflects the company's fixed investment, research and development spend and employee training as well as the education and skills that employees bring with them into the company.

Employees represent a substantial base of intellectual capital and the study noted the investment made by BAE Systems in maintaining and upgrading this capital. Over 21,800 employees received training in 2002 and the company employed 1,100 full-time apprentices, 5% of all engineering apprentices in the UK.

Note This paper covers the wholly owned businesses of BAE Systems and therefore does not seek to capture the economic benefit the UK derives from Airbus UK and joint venture arrangements with other companies.

Engaging with our stakeholders

There are many different views on what CSR means for our industry and how we, as a defence company, should manage ethical, social and environmental issues.

We want to be open with our stakeholders and understand their views. We are keen to engage in the debate about our role in society and to report our progress on addressing stakeholder concerns.



I think it is always a losing proposition for companies to tout their morals too much. Having said that, just adhering to the rules is a weak message since the rules are an ethical boundary drawn by someone else.

Regulator (in response to questions on the responsibilities of a defence company)



ISSUES RAISED

We encourage dialogue and open communication with our stakeholders including employees and their families, trade unions, shareholders, customers, business partners, suppliers, competitors, governments and local communities.

Much of this engagement takes place in the normal course of business. We also communicate specifically on our CSR performance through this report, our website and personal contact, both formal and informal.

We meet regularly with investors, including the socially responsible investment (SRI) community, to discuss CSR issues. Our sector is seen as controversial by some of these investors. We aim to learn more about their concerns and communicate what we do and how we work.

In 2003 we became the first defence company to be included in the Dow Jones Sustainability Index. This reflects the progress we have made in communicating our corporate governance performance and responsible business practices.

Several specialist SRI research agencies assessed how well we manage risks arising from environmental, social, employment and ethical impacts. Morley Fund Management improved their rating of BAE Systems' risk management, policy and practice from level 3 to level 2 as a result of their assessment.

The Ethical Investment Research Service (EIRIS) assessment identified strengths, such as our anti-corruption measures and our environmental management system, as well as potential challenges for the Company.

We also participated in the first Corporate Responsibility Index launched by Business in the Community, a UK charity. More than 160 FTSE 250 companies participated and we were ranked in the 2nd quintile. This reflects the progress we have made and the improvements we still need to implement.

FEEDBACK

We welcome feedback on any of the issues covered in this report. Comments can be sent to csrfedback@baesystems.com.

Many of the issues raised by our stakeholders relate to our particular responsibilities as a manufacturer of defence equipment. While issues such as regulatory compliance, ethical business conduct and product stewardship are important to all business sectors, the nature of our products means that responsible management is particularly essential.

We strive to meet all regulatory requirements and have internal procedures to ensure compliance (see page 7). Ethical business conduct is fundamental to BAE Systems and the standards we demand of our employees are detailed within our Ethics Policy (see page 9).

MANAGING CSR

Social, ethical and environmental issues are important to our business performance, posing both risks and opportunities. It is essential that we manage these issues well.

BAE Systems' Operational Framework includes our business principles, code of behaviour, detailed corporate governance policies and policies governing CSR issues. It is regularly reviewed, with the next update scheduled for 2004.

Our management structure has clear responsibilities through operational line management on business integrity, people issues, safety, health and the environment and community, reporting through the Chief Executive to the Board of Directors. Complementing this structure, we have the necessary systems to ensure flight, explosive and nuclear safety. These involve line-management and our relevant technical experts.

Effective management starts with the senior management team that provides strong leadership and is clearly accountable. Our Operational and Risk Management Frameworks control the group's activities and are underpinned by requirements on behaviour, ethics and policy compliance. We are transparent about our business performance and publish a detailed report to shareholders. We also publish annual and half yearly accounts that are available on our website.

Ethics Policy

We have an Ethics Policy governing our operations in the US and UK. This sets out the standards of behaviour we expect employees to meet in their work and dealings with each other, customers and our stakeholders. During 2004 this policy will be extended to cover our Australian operations.

Employees in the US and UK can discuss ethical concerns, get advice or report possible breaches of our standards via an independent hotline. In 2003 the US hotline received 167 calls, primarily relating to human resource issues and grievance procedures. The UK hotline received 39 calls in 2003, of which two-thirds related to human resource issues.

An Ethics Review Committee of senior executives meets quarterly to review details of all contacts with the hotline and ensure that action is taken to resolve issues where necessary. The Committee is chaired by the Audit Director, who monitors compliance with the policy.

ETHICAL BUSINESS CONDUCT POLICY

- In all aspects of doing business, we will behave ethically. What do we mean by behaving ethically? Each of us has an idea of what ethical behaviour means in our daily lives. In our work for the company, behaving ethically means:
- Obeying the laws and regulations in force, wherever we are
- Preventing actions which harm others or the environment
- Showing honesty, integrity and openness in dealing with fellow employees, customers, representatives of governments, suppliers, competitors and anyone else we meet in the course of business
- Creating a working environment free of intimidation and in which everyone is treated fairly and with dignity and respect
- Complying with the standards of conduct we have set ourselves
- Not tolerating unethical behaviour by others
- Reporting unethical behaviour which we encounter.

PRODUCT STEWARDSHIP

Ensuring that our products are safe to use is a key responsibility. We also need to make weapon systems as accurate as possible, and minimise the potential impact of our products on the environment.

Our managing directors are responsible for implementing our product safety policy in their Business Units, by setting up product safety management systems. Product safety is a key responsibility of the Engineering Council led by our Chief Operating Officer, Mark Ronald.

A Product Safety & Environmental Focus Group has been set up with representatives from each major business. The group provides specialist advice on product safety management, raises awareness of product safety issues and regulation, and promotes the spread of good practice across the company. This includes providing training material on product safety for the Engineering Developing You framework and organising regular Product Safety Forums for employees.

We aim to design products that are safe to handle and transport. For example, RO Defence, a BAE Systems company, has developed a range of insensitive munitions, using new explosives that are significantly less likely to explode in an accident.

Lead used in ammunition can harm the environment and pose a risk to people. Our RO Defence site at Radway Green is developing lead-free ammunition which will be available in 2005.

There have been concerns that the use of depleted uranium in weapons may cause harm. In 2003, we stopped using depleted uranium in our products. Our depleted uranium manufacturing facility at Featherstone is being decommissioned in compliance with UK standards.



“Your CSR policy seems to be well thought through but you have not stated any procedures by which you attempt to fulfil your commitments. If you do not act on your principles how can you claim to uphold them?” Gareth Hume, by email

“Arms are perfectly legal and necessary, but the company making and selling them has to have principles. The more dangerous your products, the more important it is to have values and principles.” Human rights campaigner

Can a defence company be socially responsible?

At first sight, says leading CSR journalist **Roger Cowe**, it seems the defence industry faces unique corporate responsibility challenges. But relatively innocuous domestic businesses face some of the same responsibility issues.

We cannot be happy with the notion of *irresponsible* defence companies, but the route to responsibility is obviously not easy.



For pacifists, weapons and responsibility are mutually exclusive. But for the rest of us, who accept that guns, planes, tanks and other armaments are necessary, the question of their manufacturers' corporate responsibility is more complex. We cannot be happy with the notion of irresponsible defence companies, but the route to responsibility is obviously not easy.

At first sight, it seems that the defence industry is unique (so far as corporate responsibility is concerned). Nobody else makes products that are designed to kill people, with huge amounts of skill, technology and money invested to make them do that as effectively as possible. Products ranging from electricity to cars do kill, but that is not their purpose, and suppliers do their best to make sure it doesn't happen.

This distinction dramatically increases the importance of how the defence business is carried on – it is even more important that defence manufacturers act responsibly than suppliers of electricity or cars, or anything else. But the responsibility issues are mirrored in other sectors. The closest parallel is international contracting, where inter-governmental relations and public policy are also important, e.g. in dam construction, road building and power station contracts. But relatively innocuous domestic businesses also face some of the same responsibility issues.

Transparency is the way to address bribery, but transparency is an important aspect of corporate responsibility in every sector.

First, the question of who to sell to. The deadly purpose of weapons means that it can be responsible to sell them to one customer but not to another, which is why so much effort has been invested in controlling exports to countries with poor human rights records or where there is regional conflict. But the issue of the 'responsible customer' is not unique – it obviously applies to tobacco, alcohol and gambling, while providers of products and services ranging from finance to medicines also have to consider what customers will do with their products.

The other aspect of the 'responsible customer' is whether an impoverished country can afford the planes, tanks or missiles. The answer is often 'no', and corporate responsibility means asking that question rather than hiding behind the customer's decision. But, on a smaller scale, that also applies to lottery tickets, and providers of loans or credit cards also have to ask whether the customer can cope with the debt.

Corruption is a major issue in the defence industry, but it is with other deals such as infrastructure projects as well. Whenever a government hands out a lucrative contract or licence, there is a danger that bribes will be asked for and/or paid, regardless of whether the contract is for defence or dams or power stations or telecoms licences. In the defence industry this can be complicated by the practice of offset agreements, under which the supplier agrees to make a social investment in education or community development. But such offsets are no different in principle to the planning gain involved in local authority permissions for new retail stores (and local authority planning deals have been no strangers to bribery and corruption over the years).

Transparency is the way to address bribery, but transparency is an important aspect of corporate responsibility in every sector. It is certainly more difficult in this business than in many, because of the culture of secrecy. But there is a parallel with the oil industry's royalty payments – which many in that industry are now trying to make public, backed by governments including the UK's in the Extractive Industries Transparency Initiative.

The important role of governments on both sides of defence deals does significantly complicate the picture. But the development of corporate responsibility in the last few years has shown very clearly that it is not enough for businesses to hide behind governments. Official prohibition is a good reason for not doing something, but permission is not enough to make it responsible. Legislation and government acquiescence frame what is possible, but it does not stop the food industry needing to address obesity, for example, the banks acting on financial exclusion and over-indebtedness, supermarkets worrying about their relationships with suppliers and their impacts on town centres, or drug companies accepting the need for action on HIV/Aids.

But companies also have to be responsible for how they influence governments. Again that is not unique to the defence industry, but it is especially important in a business where government relations are so important and the links between companies and civil servants are so close. The more intimate the business/government relationship, the less a company can rely on the government's decisions to justify its actions, because the company is deeply implicated in the decision-making process.

It is surprising how many analogies there are with other industries. That means if it is impossible to be a responsible defence company, then it is impossible to be responsible in all the other industries where the same predicaments apply – which means throughout the business world. It may be more difficult for a defence manufacturer but it must not be impossible.

Roger Cowe is a business writer specialising in corporate responsibility and sustainability. This commentary does not imply approval or otherwise for the content of this report, which he has not reviewed.

FEEDBACK

Throughout this report we show how we are responding to these issues. We welcome your views. Send comments to csrfeedback@baesystems.com.



Workplace

The innovation and commitment of our employees are fundamental to our success. We aim to support our employees and help them reach their potential by providing a safe workplace free from discrimination where employees can get the training they need to develop their careers. Good communication with our employees and their representatives helps us address issues and concerns. Here we discuss our employment policies and health and safety standards and report our performance in 2003.

“A lot of good work has been done to develop and implement Equality and Diversity across RO Defence. We recognise that we are not there yet – this is more a marathon as opposed to a sprint! We plan to develop our commitment to Equality and Diversity further during 2004 for the benefit of our employees, our business and society.” Clive Richardson, Managing Director, RO Defence

DIVERSITY DATA: GENDER						
	UK		US		Australia	
	2002	2003	2002	2003	2002	2003
Total employees	39,084	36,679	20,895	23,369	2,662	2,658
Male	33,879 (87%)	31,668 (86%)	14,938 (71%)	16,739 (72%)	2,850 (85%)	2,215 (83%)
Female	5,169 (13%)	5,011 (14%)	5,857 (29%)	6,630 (28%)	412 (15%)	443 (17%)
Undeclared	360 (0.1%)	0	0	0	0	0

DIVERSITY DATA: ETHNICITY						
	UK		US		Australia	
	2002	2003	2002	2003	2002	2003
White	35,176 (90%)	12,275 (33.5%)	17,418 (83%)	19,162 (82%)		
Non-white	704 (1.8%)	383 (1%)	3,477 (17%)	4,207 (18%)		
Undeclared	3,204 (8.2%)	24,021* (65.5%)	0	0		

NOTE
*Ethnicity data for 2003 is incomplete because of technical problems with our data collection systems. This has now been improved.

ETHNIC MINORITIES IN THE US			
	2002	2003	
Total employees	20,895	23,369	
Ethnic minorities	3,477 (17%)	4,207 (18%)	
Caucasian	17,938 (83%)	19,162 (82%)	
African American	1,515 (7%)	1,636 (7%)	
Hispanic	716 (3%)	935 (4%)	
Asian	1,147 (6%)	1,402 (6%)	
American Indian	99 (1%)	234 (1%)	

AGE (PERCENTAGE)						
	UK		US		Australia	
	2002	2003	2002	2003	2002	2003
Under 25	9	10	3	5	10	26.2
26-35	21	19.3	13	16	27	43.8
36-49	46	45.6	47	45	40	18.5
50-59	21	21.9	27	25	20	3.2
60+	3	2.9	10	9	3	8.3

EMPLOYMENT POLICY

Key elements of our policy include:

Equal opportunities: We treat job applicants and employees in the same way, irrespective of sex, sexual orientation, marital status, age, colour, race, nationality, religion or ethnic origin.

Disability: We recruit, employ and develop people regardless of disability on the basis of the suitability of their qualifications, skills and experience for the work.

Intimidation: We shall develop and maintain a working environment whereby all employees have the right, and the ability, to work in an atmosphere free from intimidation of any kind and where they are treated with dignity and respect.

Employee development: We aim to create an environment where everyone is encouraged to give their best and realise their full potential, through the provision of learning and development opportunities.

Health and safety: We are committed to the highest standards of product safety and health and safety at work. This is a specific area for which all employees have a personal responsibility in all aspects of their day-to-day activities.

Grievances: Any employee who feels that they have a material grievance has access to a formal procedure in all businesses.

Disciplinary procedures: Formal disciplinary procedures provide a clear framework for addressing issues of employee misconduct or poor performance.

Whistleblowing: We provide all employees with access to an independent process whereby their concerns about the operation of the business can be investigated and, if warranted, appropriate actions taken.

DIVERSITY

We recognise that a diverse workforce drives greater innovation and better business performance. This means we must encourage a wide range of skills and hire a cultural mix of people who bring different but complementary values, attitudes, talents and knowledge to the workplace.

We know this is a challenge. For example, it is difficult to increase quickly ethnicity and gender diversity in our traditionally white male-dominated sector in the UK.

During 2003 we changed the way we manage diversity, making it an integral part of everyday management in our Business Units. Senior managers are supported by diversity coordinators as well as an implementation team in each Business Unit. Our Corporate Diversity Steering Group, made up of senior diversity champions from across the business, reviews and monitors implementation.

We have used the Framework for Excellence in Equality and Diversity (FEED), an international benchmark developed by the Equality Foundation, to track our progress and identify areas for improvement in a number of our UK Business Units.

Our recruitment and human resources processes are designed to help ensure equality of opportunity. For example, in the US BAE Systems regularly attends and sponsors job fairs run by organisations such as the National

Society of Black Engineers (NSBE). In 2003, our US businesses advertised job vacancies in six diversity-focused publications.

We track data on gender for our businesses in Australia, the UK and US to monitor our progress. In 2003 women made up 19.2% of employees at BAE Systems – a small increase on the previous year (18.2%).

Progress in 2003:

- BAE Systems Aerostructures at Prestwick, UK became the first organisation in Europe to receive a Silver Award from the Equality Foundation. This recognises the company's progress at implementing its equality and diversity policies. Employees and trade union representatives plan to build on this success and achieve the Gold award by June 2006.
- Saudi nationals now make up more than half of all BAE Systems employees in Saudi Arabia. By recruiting and training local people, we can bring major social and economic benefits to the countries in which we operate. In Saudi Arabia, we are recruiting qualified Saudis to fill vacant positions wherever possible and training young Saudis through our apprentice programmes.

- Affirmative Action Plans are in place at our sites in the US to support recruitment of women and minority groups. Sites are regularly audited by the Office of Federal Contractors Compliance Program (OFCCP) to assess performance against these plans. Seven sites were audited. There were no significant findings or remedial action required.
- Our US businesses established an Equal Employment Opportunity Working Group headed by the senior vice president of human resources. The group will monitor and report diversity performance, and address areas identified for improvement.
- BAE Systems North America received awards from the National Society of Black Engineers, National Society of Women Engineers and the Society of Hispanic Professional Engineers in recognition of our work on diversity.
- As part of RO Defence's Equal Opportunities strategy, managers, employees, and trade union representatives meet regularly to assess and develop diversity action plans. As a result the company has introduced equal opportunities training for all managers, diversity notice boards and an intranet site, as well as a 'Springboard' programme for women leaders. The company achieved a Bronze Award from the Equality Foundation in 2003.

TRAINING AND DEVELOPMENT

Training gives our employees the opportunity to develop their careers and reach their full potential. It helps maximise their contribution to the company.

We offer a range of training opportunities.

The BAE Systems Virtual University runs 3,000 e-learning courses covering three areas – leadership, professional competencies and personal effectiveness. Some of these are provided directly by the company and others by partner colleges and universities. Over 18,500 employees are now registered. In 2003, 27,032 courses were taken with a total of 278,912 training hours spent online. Online training saves travel time and enables each employee to learn at the time, place and pace that suits them best.

Engineering Developing You (EDY) is a portfolio of online and classroom-based training courses for our engineers, who complete a competency profile with their managers to identify the training they need. In the UK 240 engineers took EDY courses and completed 720 training days during

the second half of 2003. BAE Systems invested £180,000 in the training. Our target is for 90% of engineers in UK-based businesses to enrol on the programme by the end of 2004. Over 6,500 engineering employees (34%) have enrolled and completed competency profiles so far.

Project Management Developing You (PMDY) is a similar tool for project managers. It includes six training modules to help employees improve their capabilities and ensure we meet our commitments to customers. Over 1,900 PMDY training modules were completed in 2003.

We have learning resource centres at many of our sites where employees can undertake computer-based training programmes. All of our locations in Saudi Arabia, for example, have learning centres staffed by specialists. A road show in 2003 helped raise awareness about the facilities and training opportunities available at these centres.

All our graduate recruits complete our two-year development programme. This includes flexible training as well as guidance and support from corporate and personal mentors.

Apprenticeships

Apprenticeships give young people the opportunity to gain qualifications through on-the-job training. This benefits us by ensuring a strong skills base for our company in the future.

We have 1,100 apprentices in the UK, where our main manufacturing operations are based. Over 300 new apprentices were employed in 2003. There are also around 450 apprentices at Airbus in the UK, in which BAE Systems owns a 20% stake. Apprentices train in a wide range of skills, from engineering, steelwork and joinery to business administration and information technology.

The majority of apprentices are part of a 'modern apprenticeships' contract between BAE Systems and the Learning and Skills Council, a UK government body. Overall the BAE Systems programme has an 87% completion and retention rate. This is high compared to other apprenticeship programmes where average retention rates can be as low as 24%. Our Chief Executive, Mike Turner, is part of the UK National Modern Apprenticeship Task Force.

In 2003, Naval Ships took on 112 new apprentices. This is the company's largest ever intake and a significant increase on the 41 taken on last year. The company has received an award for Quality in Training Delivery from the Scottish Modern Apprentices scheme in recognition of its work. Adult apprentices are also employed at Naval Ships. During 2003, some 20 steelworkers successfully completed adult apprenticeship programmes to qualify in the electrical trade. A further 35 adult apprentices are in the process of completing apprenticeships in production trades.

Grace Johnstone, a BAE Systems apprentice in Lancashire, UK was recognised as the Young Woman Engineer of the Year in 2003 (see case study).

Leadership

Our leadership programme for executive employees is called Performance Centred Leadership (PCL). This helps us maximise their potential, identify high flyers early in their careers and strengthen management skills. PCL covers the five key elements of leadership: Achieving High Performance; Focusing on the Customer; Developing Others; Continuously Improving; and Working Together. Performance in each area is assessed through peer reviews and Personal Development Reviews to set salary and bonus levels and make recommendations for promotion. Over 200 executive BAE Systems employees took part in leadership training during 2003 (almost 45% of those eligible). Coaching is provided to address poor performance among executive employees. Terminations among this group were 3.5% in 2003 compared with 4% in 2002, and 4.5% in 2001.

A team of employees from our Australian business take part in the South Australian Leadership Enterprise Action Programme (LEAP) each year. This provides an opportunity to test ideas and build leadership and management skills through developing business plans and proposals. The team from BAE Systems competes against employees from other companies to develop the most successful business plan and investment proposal pitch.

Our North America Leadership Development Programme, provides in-depth and intense training, coaching and leadership development opportunities for high-potential employees and future leaders.

DISABILITY AT BAE SYSTEMS

Callum Colville, 20, joined Avionics in September 2003 as a Modern Apprentice. Callum has Asperger Syndrome, a development disability that affects the way a person communicates and relates to people.

His first experience at BAE Systems was a work placement while he was still at college. This was a challenge both for him and the company. Initially he found it difficult to adapt to his new environment and to work with new people in a team. But with the right support Callum proved to be extremely motivated and impressed everyone with the quality and detail of his work.

As a result, BAE Systems offered him a fast-track apprenticeship. Callum has shown great resolve in overcoming the challenges posed by his disability and has integrated extremely well with his team. He has grown in confidence and has a strong belief in his own ability.

He was recognised by the Scottish Qualifications Authority at their annual awards for academic achievement in 2003.



GRACE JOHNSTONE, YOUNG WOMAN ENGINEER OF THE YEAR



Grace Johnstone, 27, a BAE Systems Flight Test Engineer from Warton, UK has been named Young Woman Engineer of the Year 2003. This prestigious award recognises dynamic, technically excellent professionals in engineering.

Grace's career is progressing at an impressive pace. She started at BAE Systems as a craft apprentice and

rapidly moved to become a skilled flight test engineer on Eurofighter Typhoon aircrafts. She is responsible for ensuring that the aircraft electronic control systems function correctly.

In 2004, Grace will visit schools and colleges across the UK to share her enthusiasm for engineering and encourage others to consider it as a career.

“I would advise anyone who is technically minded to go into engineering, especially at BAE Systems – it's the best career in the world!”

MANAGEMENT TRAINING OPPORTUNITIES FOR SAUDI EMPLOYEES

The BAE Systems Diploma in Management (BDiM) was launched in Saudi Arabia in 2003. Eight company employees joined the course that provides pupils with a grounding in the management skills needed to become BAE Systems managers.

The diploma programme, developed with Leicester University in the UK, takes one year and requires students to devote a significant proportion of their spare time to the course. The qualification is an appropriate starting point for pupils who wish to study further for a master's degree in business administration (MBA). Usually pupils will have gained the company Certificate in Management (BCiM) before being accepted for the diploma course.

Paul Ethell, BAE Systems Human Resources Director for International Programmes said "The diploma is an important element in the Mustakbal development programme for Saudis, creating the managers of the future for our Middle East Operations".



We will encourage a hunger for new ideas, new technologies and new ways of working to secure sustained competitive advantage for our company.

Chairman's Award for Innovation, Innovation and Technology Value Team's Mission Statement



FINANCE LEADER DEVELOPMENT PROGRAMME

BAE Systems has introduced a Finance Leader Development Programme (FLDP), for our most talented finance professionals in the UK. The programme will help ensure we have a supply of bright, talented individuals able to tackle the company's most challenging projects.

The new five year course enables trainees to gain CIMA (Chartered Institute of Management Accountants) qualifications and develop their careers through regular workshops and coaching from executive employees.

Employees enrolled on the programme take up three one-year roles in different areas of the business. This includes participating in

some of our most exciting and challenging multi-national projects, such as the Eurofighter Typhoon, the Astute class submarine and the new Airbus A380. They also benefit from opportunities to network with employees from across BAE Systems.

Sixty five employees are currently enrolled on the programme which achieved a 92% pass rate in 2003.

The FLDP has been recognised as one of the top CIMA training programmes in the UK. In 2003 BAE Systems came tenth in the Times newspapers Top 100 Employers for Finance.

OFF-FRIDAY RULES APPLY

Many employees at Information and Electronic Warfare Systems Division (IEWs) in the US benefit from a 9/80 work week schedule, that gives them every other Friday off.

This is part of the unit's commitment to help employees achieve a good work-life balance.

IEWs maintains an off-Friday call centre to handle time-critical and important phone calls with an on-call person designated for every function or business area.

The initiative is now widely copied by other companies. "It is hugely popular with employees and continues IEWS' tradition as an employer of choice" says Jonathan Murphy, IEWS Human Resources Vice President.

Chairman's Awards for Innovation

Our Chairman's Awards recognise individuals and teams whose innovative ideas make BAE Systems a better, more competitive company and help us to live up to our values. Over 3,000 nominations were received in 2003 in three categories – Innovation, Implementation and Community. The judges gave 5 gold and 46 silver awards.

Winners included a team from Underwater Systems in Waterlooville, UK who developed a remotely controlled mine disposal system to clear mines from the sea and potentially save many lives. A team from three BAE Systems companies in the US won the award for Implementation. They worked in partnership with the US Army and the defence company General Dynamics to develop a laser-guided warhead that can be delivered with pinpoint accuracy within one metre of target.

The Community award was given to employees at Customer Support & Solutions in Saudi Arabia for their work at the Riyadh Multinational School, in support of special needs students (see page 24).

Communications & employee survey

Our internal communication channels keep employees informed of company news, and seek their feedback. These are some of our communications channels:

- Intranet sites are available to all employees and updated daily
- BAE Systems News – our company-wide newsletter, launched in 2003, is published six times a year.
- Regular employee opinion surveys are an important barometer of how well we manage the needs of our people. For example, in 2003, acting on feedback from our 2002 survey, our Australian business developed and implemented an Employee Recognition and Performance Scheme to reward good performance. Our next survey will be conducted in 2004.
- Our ethics hotline in the UK and US is a confidential way for employees to raise concerns or report wrongdoings (see page 9).

Industrial relations

We are committed to a partnership approach with all our employees and the trade unions that represent them. This co-operation brings real benefits to the business. For example in 2003, trade unions played an active role in securing Advanced Jet Trainer Hawk and Future Carrier orders from the UK Ministry of Defence.

Management and trade unions meet on a regular basis through a structured meeting schedule. Twice a year the CEO briefs senior union representatives from across the business on the current business position and challenges ahead. Trade unions are consulted on a wide range of issues including business strategy, pensions and employment policy. This dialogue is complemented by joint management – trade union working groups focusing on particular issues such as learning and equality.

Redundancies

In 2003, we continued to restructure our business. Regrettably this led to the announcement of 3,128 job losses in the UK.

We work with trade unions to minimise involuntary job losses and ensure that all restructuring and rationalisation are handled with sensitivity. Most employees who lost their jobs in 2003 left the company or changed jobs voluntarily, through, for example, voluntary redundancy, retraining, re-deployment or early retirement.

We follow best-practice guidelines for handling rationalisation, developed in partnership with trade unions. These include providing support for employees whose jobs are potentially at risk.

For example, at our Barrow, UK shipyard an on-site Employee Support Centre provides internal and external vacancy lists, display boards with a wide range of local jobs and training materials. The Centre's full-time staff help employees facing redundancy to find new employment.

Our New Start programme provides employees with the opportunity to learn new skills and undertake retraining in systems, support services or trade roles.

Pensions

The review of our pension schemes initiated in 2002 reached its first conclusions in 2003. Because of poor performance in the financial markets we, along with many other companies, are facing shortfalls in our pension funds. We have consulted extensively with trade unions, pension representatives and employees to help address this difficult issue.

The review proposed changes to our main pension scheme. These have now been approved by the Trustees and will help ensure the scheme provides sustainable and affordable pensions, for the company and employees.

We will continue to consult with unions, pension representatives and employees on these issues.

UNION LEARNING REPRESENTATIVES IN THE UK

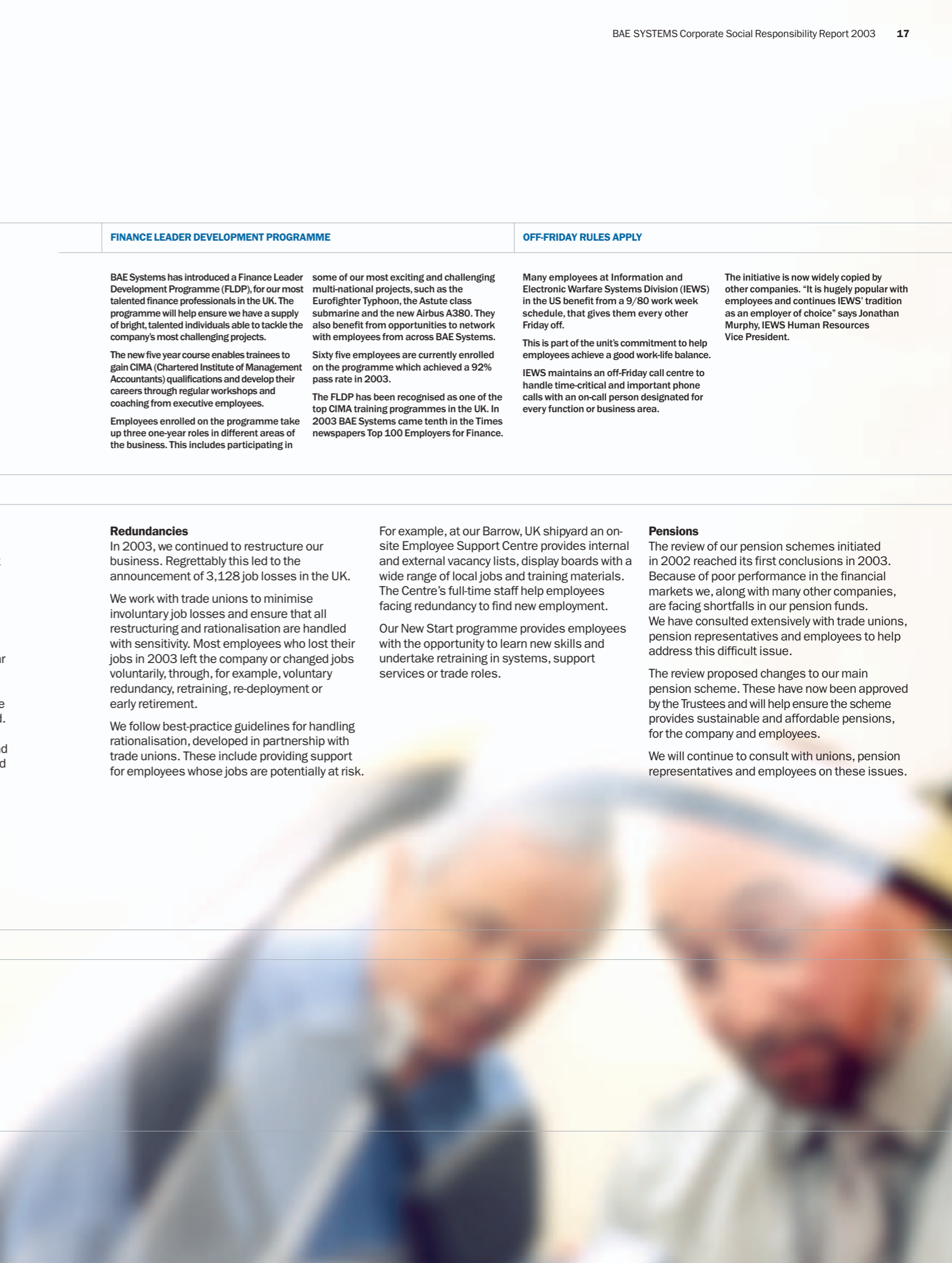
Union Learning Representatives (ULRs) support employees to undertake training and help foster a culture of lifelong learning in the workplace.

They encourage employees to identify their learning needs, support them to develop a learning plan and provide information on the different training employees can access.

ULRs are specially trained trade union members who are given paid time off by law to support their members in the field of learning. Government research suggests that ULRs help to improve productivity and increase motivation and self-confidence among employees.

In 2003, we agreed a framework with unions for how ULRs will operate within BAE Systems' UK operations. The Framework ensures that time off is agreed so that it does not adversely affect normal working requirements. It enables facilities

to be provided where ULRs can meet with employees and gives employees paid time off to consult with their local Union Learning Representative.



“ Good HS&E practice is just as important to the success of the business as performance and delivery. The well-being of the Naval Ships workforce is not only a legal and moral responsibility for the business but is also a key contributor to achieving success. Vic Emery, Managing Director, Naval Ships ”

DUE DILIGENCE, AUSTRALIA

We implemented a Safety, Health and Environment (SHE) Due Diligence programme across all Business Units in Australia, during 2003.

Due diligence means taking all reasonable precautions to prevent injuries or accidents in the workplace. For example, by

implementing a plan to identify possible workplace hazards and taking action to prevent accidents or injuries.

More than 200 employees have been appointed and trained as SHE champions. They will ensure best practice in health and safety is implemented consistently across some 50 locations. Their role includes

undertaking risk assessments, devising action plans for improvement and raising safety awareness among employees.

Health and safety information is maintained on a central database to help share information across the business.

HEALTH AND SAFETY

The health and safety of our employees and the communities around our facilities is our first priority.

Our employees and contractors in manufacturing are exposed to a range of safety risks, such as manual handling, working at height, noise, hand-arm vibration syndrome (HAVS) and respiratory and skin irritation. We also handle explosives and nuclear energy that pose additional risks. Many of our employees are office based. They are exposed to a different set of risks, for example from working with display screen equipment.

We aim to provide a safe workplace for employees and contractors. Our health and safety management systems seek to ensure risks are identified, managed and controlled. Individual employees are made aware of the risks they face and the actions they should take to mitigate those risks.

Health and safety data are tracked in all BAE Systems companies and our performance is closely monitored by the Board. We also monitor employee health and have a number of initiatives to help employees lead healthy lives.

Good safety management requires the commitment and involvement of everyone at BAE Systems. All employees have a personal responsibility for health and safety in all aspects of their day-to-day activities. We value the involvement and efforts of the trade unions in supporting and encouraging the continuous drive for safety improvement across our business.

Each Business Unit is required to set targets for improving its Safety, Health and Environment (SHE) performance, which are measured against key performance indicators. Performance against targets is reported annually within each Business Unit and is reviewed both locally and at corporate level.

We have established a corporate framework for SHE. This will help ensure our SHE policy is implemented consistently across the company and that we achieve continual improvement in health and safety performance. The framework requires each unit to establish a formal SHE management system commensurate with the level of risk in their operations. Management systems will be formally audited and findings submitted to the Executive Committee.

Our work with the Health & Safety Executive (HSE) to identify and address the causes of accidents in aerospace manufacturing was completed in 2003 and a number of 'good practice' guides resulting from the study were drawn up. We will be working with the HSE over the next three years to conduct a detailed study of high-risk areas and will report our progress.

Progress in 2003:

- We increased protection for employees in Saudi Arabia in response to the growing terrorist threat in the country. Security was increased at all company sites, military bases where many of our employees work, and residential compounds. The latest government security briefings are circulated to employees, including via text message for employees on military bases. Families of non-Saudi employees were encouraged to relocate to their home countries at the company's cost.
- We implemented a Safety, Health and Environment Due Diligence programme across all Business Units in Australia (see case study).
- Our Naval Ships and Submarines businesses implemented a new Health and Safety policy. An HSE good-practice handbook, developed in partnership with trade unions, has been issued to all employees, highlighting simple health and safety Dos and Don'ts. A health screening programme, safety training, visual displays and a physiotherapy service for employees suffering from musculoskeletal complaints have also been introduced.

The initiatives benefit both employees and the company by reducing accidents and helping injured employees to recover and return more quickly to work.

- A new incident-reporting system has been introduced at our shipyards in the UK. Employees are encouraged to report near-miss incidents that could result in personal injury or damage under different circumstances. These are investigated and, where necessary, measures introduced to prevent similar, more serious accidents from happening in the future.
- Employer liability premiums were reduced at our Scottish shipyards in response to improved safety performance.
- Our Information and Electronic Warfare Systems business received a Corporate Health Achievement Award from the American College of Occupational and Environmental Medicine. The award recognises achievements in employee health and safety (see page 20).
- Air Systems achieved a silver implementation award in our Chairman's Awards for Innovation for the joint development and introduction of a business-wide management tool to help reduce the risk of hand arm vibration syndrome.

- An RO Defence explosives site at Glascoed, UK won the Royal Society for the Prevention of Accidents Gold Award for Health and Safety for the fourth consecutive year.
- The Platform Solution plant at Johnson City, New York became the first North American site to be certified to the OHSAS 18001 occupational health and safety management standard.
- Our North American businesses established an Environmental, Safety & Health (ESH) Council to improve their due diligence process and establish a baseline and metrics to monitor ESH performance.
- Our annual SHE Conference enabled more than 200 SHE professionals from across BAE Systems to exchange ideas and best practice.

MANMOVERS AT WARTON SPRAY SHOP, UK

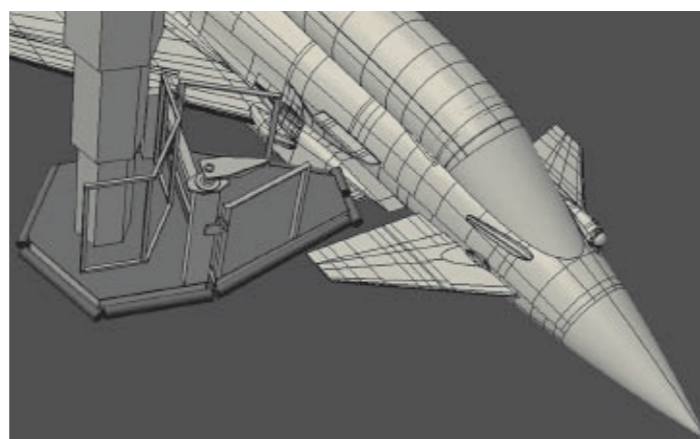
Our site at Warton, UK is introducing "man-movers" for preparing and spraying aircraft.

These moveable platforms are used instead of fixed access staging. They help ensure a safer and less cluttered work area and can be quickly lowered in an emergency to clear exit routes.

Fixed staging poses several health and safety risks. For example the potential for injuries to operators when moving the equipment, falls from height or the risk of collision with the aircraft. They also take longer to set up and do not allow easy access to all areas of the aircraft.

The manmover system allows operators to work from moveable platforms that can cross over the aircraft. Safety features are included to prevent falls and stop the machine working if there is an accident. Impact collision systems protect both operators and the aircraft.

Not only does the system improve safety for operators, it also reduces the time needed to prepare and spray the airframes by nine days.



MAJOR ACCIDENTS			
	2001	2002	2003
UK major accidents	30	31	24
UK rate per 100,000 employees [†]	68	70	68
US major accidents	8	6	9
US rate per 100,000 employees	34	34	38
Aus. major accidents	*	0	0
Aus. rate per 100,000 employees	*	0	0
Saudi major accidents	*	*	8
Saudi rate per 100,000 employees	*	*	163
Total major accidents	38	37	41
Total rate per 100,000 employees	61	56	61

[†]UK HSE Average 2002/3 is 195.5 per 100,000.

REPORTABLE ACCIDENTS			
We report all accidents defined as 'reportable' under the UK Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR).			
	2001	2002	2003
UK reportable accidents	370	302	325
UK rate per 100,000 employees [†]	847	686	925
US reportable accidents	142	111	62
US rate per 100,000 employees	778	634	258
Aus. reportable accidents	*	8	0
Aus. rate per 100,000 employees	*	178	0
Saudi reportable accidents	*	*	*
Saudi rate per 100,000 employees	*	*	*
Total reportable accidents	512	421	387
Total rate per 100,000 employees	827	638	577

[†]UK HSE Average 2002/3 is 1,130 per 100,000.

TOTAL INJURIES			
	2001	2002	2003
UK total injuries	10,581	5,785	5,862
UK rate per 100,000 employees	23,992	13,148	16,683
US total injuries	474	331	263
US rate per 100,000 employees	3,218	1,891	1,096
Aus. total injuries	*	58	51
Aus. rate per 100,000 employees	*	1,289	1,357
Saudi total injuries	*	*	263
Saudi rate per 100,000 employees	*	*	5,351
Total injuries	11,055	6,174	6,403
Total rate per 100,000 employees	17,846	9,355	9,550

NOTE FOR ALL CHARTS

*Not reported

DAYS LOST TO WORK-RELATED INJURIES

	2001	2002	2003
UK days lost work-related injuries	9,211	6,652	6,870
UK rate per 100,000 employees	21,079	15,118	19,553
US days lost work-related injuries	5,322	1,328	1,603
US rate per 100,000 employees	29,567	7,589	6,679
Aus. days lost work-related injuries	*	50	30
Aus. rate per 100,000 employees	*	1,111	1,001
Saudi days lost work-related injuries	*	*	*
Saudi rate per 100,000 employees	*	*	*
Total days lost work-related injuries	14,543	8,030	8,487
Total rate per 100,000 employees	23,476	12,167	12,658

REPORTABLE DISEASES

We collect data on reportable diseases, which are those related to a particular activity at work and defined in law.

	2001	2002	2003
UK reportable diseases	28	58	158
UK rate per 100,000 employees	64	132	450
US reportable diseases	38	33	5
US rate per 100,000 employees	208	189	21
Aus. reportable diseases	*	*	1
Aus. rate per 100,000 employees	*	*	33
Saudi reportable diseases	*	*	*
Saudi rate per 100,000 employees	*	*	*
Total reportable diseases	66	91	173
Total rate per 100,000 employees	107	138	243

DAYS LOST WORK-RELATED ILLNESSES

	2002	2003
UK days lost work-related illness	892	784.5
UK rate per 100,000 employees	2,027	2,233
US days lost work-related illness	83	734
US rate per 100,000 employees	474	3,058
Aus. days lost work-related illness	0	0
Aus. rate per 100,000 employees	0	0
Saudi days lost work-related illness	*	*
Saudi rate per 100,000 employees	*	*
Total days lost work-related illness	945	1,518.5
Total rate per 100,000 employees	1,477	2,679

NOTE FOR ALL CHARTS

The total number of employees represented by 2003 data is 67,050. Data were reported for 65,014 employees in 2002 and 61,948 in 2001.

*Not reported

US SAFETY PROGRAMME REDUCES INJURIES

Our award-winning programme to reduce cumulative trauma disorder injuries at our Information and Electronic Warfare Systems (IEWS) in Nashua, New Hampshire, USA, has saved an estimated \$7.7 million in reported injuries and lost workday costs since its launch in 1993.

The site's expanded health clinic programme has reduced employees' lost-work time by up to three hours per visit, saving the business unit \$200,000 a year.

The success of the programme was recognised by the American College of Occupational and Environmental Medicine (ACOEM) who presented IEWS with the

2003 Corporate Health Achievement Award. This honours North American companies and institutions, recognising innovation and excellence in employee health and safety, and environmental management.

WORKING CLOSELY WITH TRADE UNIONS TO IMPROVE HEALTH AND SAFETY

Our Aerostructures site at Prestwick, UK is working closely with the trade union AMICUS to create a safe and healthy working environment for employees. The site uses a partnership approach, involving employees and unions in identifying risks at work and deciding how to manage them.

This has helped reduce accident rates from 15 in 2001 to 4 in 2003, improve workforce morale and enhance profitability. Des Browne MP, Minister of State for Work, recently visited the site to find out more about its approach.



“The work at BAE Systems Aerostructures demonstrates an excellent partnership approach to Health and Safety in the workplace, one that could be an example to other employers.” Des Browne, MP, Minister of State for Work, UK

Standards

We conform to national legal standards and aim to achieve best practice in managing health and safety.

We monitor our general safety performance using three accepted performance indicators, which are recorded as part of our obligations under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) 1995.

Performance

We collect data on reportable diseases, which are those related to a particular activity at work and defined in law. We also collect data on major and reportable accidents and the total of all work-related injuries.

In 2003, the number of accidents and reportable injuries increased in the UK, with the exception of major injuries. This interrupts a downward trend in accidents in recent years and is a cause for concern. Although our performance is still better than the national average incident rates, we will be reviewing the causes of this increase. In North America, with the exception of major injuries, there was a significant reduction in all accidents and those classified as reportable.

Considerable effort was made in 2003 to make our health surveillance programmes more effective. In the UK, this led to an increase in the reporting of cases of hand-arm vibration (136 cases reported compared with 55 in 2002), but a reduction in the instances of reportable skin problems (15 cases reported compared with 21 in 2002).

Fatalities

There were no work-related fatalities during 2003.

Nuclear safety

Nuclear submarines are built in the BAE Systems Marine yard in Barrow, UK.

The company has a Nuclear Site Licence, issued by the UK government Health and Safety Executive and regulated by the Nuclear Installations Inspectorate. The Licence imposes stringent requirements on:

- The management and control of all nuclear related site operations
- The provision of suitably qualified and experienced staff
- The capability and structural integrity of all the facilities and supporting systems
- Emergency planning.

Compliance with the Licence is confirmed through regular internal and external audits.

It is vital to protect people from exposure to radiation. Radiation doses received by employees or contractors on site are carefully monitored and reported annually. In 2003, a collective dose of 13.2 man mSv* was recorded compared with a collective dose of 8.9 mSv in 2002. This rise is due to an increase in the number of employees engaged in radiation-related work from 59 in 2002 to 98 in 2003. The average dose per person fell from 0.151 mSv in 2002 to 0.135 mSv in 2003.

Very little radioactive waste is generated at the site. Discharges to the environment are within stringent limits set by the Environment Agency. In 2003 we introduced measures to reduce further potential discharges, including a more efficient treatment system on board the submarines and improved shore monitoring systems.

We recognise community concerns about the potential impact of our nuclear work. We maintain close links with local authorities and communicate regularly about issues such as emergency planning and the future submarine programme. Local meetings are held, attended by councillors and the public.

* Millisieverts – a unit of radiation received. The average annual amount received from background radiation is 2.2mSv.

Explosives

Some of our sites in the UK and the US make, store and assemble explosives. We have a structured approach to evaluate hazards, manage risks and plan for emergencies.

We are required by law to produce regular safety reports to demonstrate that each site has an effective approach in place to manage these risks.

Employee health and well-being

Wellbeing initiatives help our employees manage stress and illness and adopt a healthy lifestyle.

Employees can join our HealthScreen programme, a series of voluntary checks to identify possible medical conditions, such as diabetes and hypertension. Follow-up medical treatment, such as blood pressure monitoring, is offered if needed, as well as advice on healthy living.

Health surveillance checks are provided for employees at risk from work-related illnesses. Employees worldwide attended over 19,000 health appointments to check for skin irritation, HAVS, respiratory conditions, or conditions relating to noise or ergonomic factors in 2003.

Other initiatives are organised at business and site level. For example:

- In 2003, our Underwater Systems site at Havant, UK ran a series of initiatives including Stop Smoking workshops, lunchtime sessions on health issues given by experts, bike-to-work days and an introduction to stress-management.
- Employees in our Information and Electronic Warfare Systems business in the US can join our Wellness Initiative programme that includes walking and running clinics, and nutritional counselling classes.

Safety compliance

Two safety prosecutions were taken against BAE Systems in 2003 for breach of the UK Health & Safety at Work Act 1974.

Royal Ordnance Defence was fined £100,000. This followed a fire and explosion at the Featherstone site in 1998 during work by external contractors.

Naval Ships was fined £5,000 for an injury to a contract worker sustained during pneumatic pressure testing on board ship.

Community

We support communities and charities in the countries where we operate, through donations of cash, practical support, materials and equipment. This is good for the community and our people who gain valuable experience. Our Charity Challenge programme encourages BAE Systems employees to volunteer their time to worthy causes in their neighbourhoods. Here we describe how we work and show that much of our community investment supports science education and careers in engineering.

BAE SYSTEMS CHARITY CHALLENGE – THE NCH LOCHABER GARDEN PROJECT, SCOTLAND

“We felt on a tremendous high because the worse the weather got, the stronger our team became...”

tremendous high because the worse the weather got, the stronger our team became. It showed that when people come together, motivated for a common purpose, so much can be achieved. You don't just become involved, you become invested”.

“We worked with local people to complete the task and they couldn't believe that the BAE Systems team would travel that far and get so involved in their little project. What could possibly be in it for our company apart from a small piece in the local weekly paper? Well, all I can say is that in that remote corner of Scotland, they now know who BAE Systems are and how committed we, through Charity Challenge, are to getting involved in communities.”

“As we stood back, we felt an amazing sense of achievement. Everyone left deeply satisfied, knowing that this would make a difference in the community.”

BAE Systems volunteers from our Aerostructures and Avionics businesses joined forces to refurbish an NCH family centre and garden in Fort William, UK.

They worked through heavy rain and knee-deep mud to lay 37 tonnes of topsoil and turf to create a neat, well-laid out garden for the centre that provides shelter and support for vulnerable children and their families.

John Hunter, Procurement Team Leader, Aerostructures, explains “We felt on a



CHARITABLE DONATIONS

“Charity Challenge generates remarkable levels of innovation on very small budgets. It breeds teamwork and makes a difference locally as well as globally.”

Sir Charles Masefield, President, BAE Systems

In 2003 our total community investment was £1,327,232. This includes cash and in-kind donations to charity.

Our corporate donations support charities working primarily in three areas – youth, armed services welfare and medical research. We support several charities through our Relationship Charities initiative with a donation of £100,000 to each over three years. This guaranteed sum enables the organisations to plan ahead and commit to a specific project. The charities we support in this way include: Help the Hospices, No Way Trust (tackling crime among young people), Royal British Legion, St John Ambulance, and the Juvenile Diabetes Research Foundation (USA).

Other donations are decided by our Subscriptions and Donations Committee.

Our businesses and individual sites also make donations to support local charities and community initiatives.

Employee involvement

Employee volunteering benefits the charities, who get support, and our employees, who gain new skills and improve their motivation and job satisfaction. Many Business Units give employees paid time off to volunteer for charities.

CHARITY CHALLENGE

Charity Challenge is our company-wide fundraising and volunteering programme. It was established in 1990 and operates at more than 100 sites across BAE Systems and our joint venture partners in five countries. The company matches funds raised and gives extra financial support to charities that provide employee volunteering opportunities.

Some Business Units also operate Pay As You Earn programmes to encourage giving by employees.

Charity Challenge raised £5.7 million during its 2002/03 campaign (January 2002 – June 2003) from employee fundraising and BAE Systems matched donations. It reported 3,500 volunteer days for charities worldwide.

Employees vote for a partnership charity to be supported over an 18 month period. The partnership charities selected for 2003/04 are: the American Cancer Society (North America), NCH (UK), Help the Hospices (Germany) and The Cancer Council Australia (Australia). In addition, employees support local charities and community initiatives through the programme.

Our Charity Challenge teams organise Involvement Days where employees do volunteer work ranging from gardening to providing professional advice, IT training and running drama workshops. In the UK the company donates £50 for every day an employee spends as a volunteer at a partner charity. Our online auction enables employees from around the world to place bids on items donated by suppliers or charities.

Activities in 2003:

Here are some examples of our Charity Challenge activities this year.

- Employees in Australia raised over AUS\$11,500 in 2002/2003 for their charity partner, the Salvation Army. Fundraising activities included head shaves, book sales, barbeques, raffles and bad-taste dress competitions. Employees gave their time to collect and deliver gifts to disadvantaged children at Christmas.

- Sharek Al-Khair is our Charity Challenge programme in Saudi Arabia. It encourages employees to donate their time and energy for the benefit of those less fortunate than themselves. Employees at the defence infrastructure team spent over 1,000 hours of their own time to source and buy computers adapted for use by severely disabled children. Money raised was matched by the company.
- In Germany, BAE Systems employees used their passion for Big Band music to raise vital funds for Hess Kinderklinik, a charity providing music therapy in a local hospital. The Underwater Big Band perform community concerts and have produced a CD to raise money for the charity.

- Employees at BAE Systems in Johnson City and Rome, US, received the Galaxy of Stars Award for the work with the Make-A-Wish Foundation. They raised more than \$40,000 in 18 months for the charity, which grants wishes for children with life-threatening diseases.
- In the UK, 80 BAE Systems employees from across the country gave up their Friday night to help out at a call centre taking calls from the public pledging money for the charity Comic Relief. Over £100,000 was raised on the night from 3,850 calls. Other initiatives included a charity challenge prize draw that raised over £38,000, thanks to generous contributions from employees and Charity Challenge teams across the UK selling thousands of tickets. The top prize, a 2002 Mini Cooper car, was donated by BAE Systems Chairman, Sir Richard Evans.



UK – YOUNG ENGINEERS' CLUB WINS FIRST PRIZE IN FORDAWARDS SCHEME



Graduate engineers from our Avionics site in Basildon have helped to set up a Young Engineers' Club at their local school. The project was established to inspire pupils at Hilltop Infant School to aim high in their career ambitions.

BAE Systems employees use hands-on projects to teach six- and seven-year olds about concepts used in engineering, including propulsion, structures, electricity, magnetism and imaging. At the first session the children built water rockets from lemonade bottles and experimented with an infrared camera.

Five employees volunteer their time to run the after-school sessions.

BAE Systems won first prize in the FordAwards scheme for this business-education partnership, receiving £1,000 prize money for the school to put towards new resources.



It is very important that BAE Systems is involved in the community. It shows me that BAE Systems truly cares about its employees and supports their efforts to make the community a better place to live and play.

Andrew McHorney, Software Engineering Specialist, BAE Systems – Mission Solutions, San Diego, US



SUPPORTING SPECIAL NEEDS STUDENTS

The Riyadh Multinational School is the first private school in Saudi Arabia for expatriate children with special needs. Paul Dugan, a BAE Systems employee, helped found the school in 1997. Since then he and his colleagues have given their time and money to help run the school and improve its facilities. The school now has 400 students and makes a real difference to young people who rely on special education. It was awarded the gold medal for community in the Chairman's Awards for Innovation. Paul Dugan also received an OBE in recognition of his work in the Saudi community.



EMPLOYEE INVOLVEMENT

Dr Susan Anderson, Trial Support Manager, Woomera, Australia, is helping young women pursue careers in the aerospace industry. She is a judge for the Zonta International Amelia Earhart Fellowship Awards, which support women pursuing graduate degrees in aerospace-related sciences and engineering. Susan was twice a recipient of the award while pursuing her own studies and comments, "I've worked closely with Zonta since then as I believe it's important to give something back".

WALKING TO CURE DIABETES



BAE Systems employees in the US are supporting the Juvenile Diabetes Research Foundation (JDRF). JDRF is the world's leading non-profit organisation funding diabetes research. Focused exclusively on finding a cure, JDRF efforts have resulted in treatments to reduce the devastating effects of diabetes and prevent complications of the disease.

Around 300 employees took part in the Walk to Cure Diabetes in Washington DC during 2003 and met their target to raise over \$25,000 for the charity. BAE Systems was a corporate sponsor for the walk, which raised over \$675,000 in total.

This is the eleventh year employees from BAE Systems have supported JDRF. They raised \$47,000 by participating in the 2002 walk and through fundraising events such as a used computer sale. The company also donated \$150,000 to the charity during 2002.

SUPPORTING EDUCATION

Education is a central part of our community investment. We work with schools and governments to interest young people in engineering and encourage them to pursue careers in our industry.

Our support includes sponsorship, employee visits to local schools, work experience placements and trainee schemes. Here are some of the initiatives we supported this year.

UK

Schools Network: Our Schools Network covers 1,500 schools across the UK and aims to motivate students to pursue a career in engineering. Schools can access teaching materials and make contact with the company and other schools through a website www.engineeringourfuture.co.uk

BAE Systems employees get involved as ambassadors visiting local schools to help children with hands-on engineering projects and to offer careers advice.

In 2003 we launched the Wright Challenge, a competition for young people to build and test their own aircraft to celebrate the first 100 years of flight.

Specialist schools: We play a very active role in the UK Government's Specialist Schools programme. This grants specialist status to schools that are strong in a particular discipline. BAE Systems is sponsoring four schools specialising in engineering: Devonport High School, Plymouth; Broadlands School, Bristol; City of Portsmouth Boys' School; and Westcliff High School for Girls.

Underwater Systems gave £45,000 to the City of Portsmouth Boys' School, to help it achieve specialist engineering status. The company has also helped to renovate engineering classrooms and donated PCs to the school. Underwater Systems engineers give talks to students studying GCSE engineering.

United States

BAE Systems Centre for Advanced Technology: BAE Systems has pledged \$1 million over the next five years to the University of New Hampshire's College of Engineering. A BAE Systems Centre for Advanced Technology is being built at the college to enhance engineering education and ensure a supply of high-calibre graduate engineers.

For Inspiration and Recognition of Science and Technology (FIRST): FIRST is a partnership between students, teachers, communities, businesses and the government that aims to interest and excite new generations of students in science and technology. BAE Systems works with teams of high school students from districts near our offices across the country and is the main sponsor for the programme in the north-east US.

In 2003, IEWS sponsored a regional competition that attracted nearly 50 high school robotics teams, with over 1,400 students. Two hundred employees gave their time to prepare and run the event.

Rensselaer Polytechnic Institute: In 2003, BAE Systems provided a \$100,000 grant to Rensselaer Polytechnic Institute, New York. The money will be used to run an engineering course that will benefit up to 300 students each semester until 2005. The college is a key recruiting target for BAE Systems.

Australia

Australia's Engineering Week: BAE Systems was the major sponsor of South Australia's Engineering Week which encourages and inspires young people to get involved in engineering.

Harvey Knox Scholarships: We support the Harvey Knox Scholarships that give young people the opportunity to realise their goals and contribute to the Hunter region in New South Wales.

COMMUNITY RELATIONS

Our site managers are responsible for ensuring good relations with local communities, for example by addressing complaints such as noise and traffic congestion.

MENTORING AND TUTORING PROGRAM

Over 50 employees at IEWS in the US give their time each week to mentor local elementary and middle school students and provide tutoring in maths and science subjects.

The initiative is run by the charity Big Brothers Big Sisters. It aims to help reverse high dropout rates in schools, reduce substance abuse and increase academic achievement by supporting children through regular contact with volunteers.

Usha Shastry is a volunteer on the programme. She comments: "As a young adult, there were a lot of people in my life who took time to encourage my dreams. This, I feel, contributed to the good fortune I have had in my life. As a female engineer, I would also like to see more young women pursue careers in science and engineering. I hope that serving as a tutor in the community will encourage other young people to pursue their dreams."

BAE Systems employees volunteered 2,100 hours through these programmes in 2003.

Employees at IDS are also involved in a mentoring programme with several elementary schools in the Austin area. They received the Super Mentor Award from the Del Valle School District in 2003 for their work.

Environment

All our activities, manufacturing operations, offices and products have an impact on the environment. This includes the natural resources and raw materials that we use as well as wastes and emissions. We are committed to managing and minimising these impacts wherever possible. Here we show how we do this and provide data on our environmental performance during 2003.

THE NEW JAVELIN SEEKER MANUFACTURING FACILITY: A CENTRE OF EXCELLENCE



BAE Systems is setting up a new state-of-the-art manufacturing facility for its £10 million Javelin Seeker missile contract.

The site will be a Centre of Excellence within Avionics and has been planned with health, safety and environmental concerns in mind.

For example, a safety, health and environment audit plan has already been implemented with risk assessments, workplace inspections and fire exit awareness and practice training completed before manufacturing starts.

The site's activities, products and services have been planned in accordance with the ISO 14001 environmental management standard and measures introduced to

reduce the use of volatile organic compounds. A touch screen computer aid at each workstation provides easy access to important information and will help eliminate paper use.

Manufacturing started at the site in March 2004.

ENERGY							NOTE *This figure is considered to be incorrect due to inaccuracies in our data collection in 2001.
	Energy use (Gwh)			Index (GWh/£1bn turnover)			
	2001	2002	2003	2001	2002	2003	
Electricity	1,225	792	657	135	98	78	
Gas	124,415*	1,054	582	13,761	130	69	
Heating oil	290	64	40	32	239	5	
Total energy use	125,930	1,910	1,279	13,929	202	149	
Total CO ₂ emissions (million tonnes)	3.7	0.6	0.4	0.4	0.07	0.048	

VOLATILE ORGANIC COMPOUNDS						
	Output (tonnes)			Index (tonnes/£1bn turnover)		
	2001	2002	2003	2001	2002	2003
VOCs to air	373	385	341	29	44	41

WASTE						
	Output (tonnes)			Index (tonnes/£bn turnover)		
	2001	2002	2003	2001	2002	2003
Total general waste	553,678	486,985	442,283	61,240	60,300	52,734
Total special waste	222,704	108,813	97,661	24,745	13,474	11,644
Recycled	590,245	365,130	436,899	65,285	45,212	52,092

WATER AND EFFLUENT						
	Output (million m ³)			Index (million m ³ /£bn turnover)		
	2001	2002	2003	2001	2002	2003
Total water mains	4	13	22	0.44	1.6	2.6
Total water abstracted	25	49	49	3	6	6
Trade effluent	2	2	13	0.22	0.25	1.5
Recycled	0.3	8	1	0.03	1	0.11

ENVIRONMENTAL IMPACTS

These are the main environmental impacts from our operations that we need to manage:

- Consumption of raw materials
- Emissions of volatile organic compounds (VOCs) from painting and cleaning
- Special and general wastes
- Greenhouse gas emissions from energy use
- Water consumption and discharge
- Contaminated land.

Environmental management

We have an environment policy to help us manage our environmental performance and minimise risks. This emphasises that everyone at BAE Systems – from individual employees to teams and managers – is accountable for the environmental impacts of our operations.

In 2001, we set a target for all of our major manufacturing sites to be certified to the international environmental management systems standard ISO 14001. Our shipyard in Barrow, UK is the only site still to achieve this and has a target to complete certification in 2004.

We monitor our performance using environmental reporting indicators that apply across the group. Improvement targets are set at site level.

In 2003 we set up a Health, Safety and Environment (HSE) Council for our operations in North America. The Council will help identify HSE risks and engage managers and employees in improving performance. It will encourage HSE professionals to share ideas and best practice for example through a new HSE website.

Energy

Energy use is one of our major environmental impacts. Burning fossil fuels (oil, coal and gas) for energy emits carbon dioxide, a greenhouse gas that contributes to climate change. Energy is also a significant business cost.

We aim to use energy as efficiently as possible and collect data on energy use in our operations to monitor performance. In 2003, we continued to make significant reductions in our overall energy consumption. This reflects changes or reductions in production in some areas as well as improvements in energy efficiency.

Many of our businesses are introducing measures to reduce energy consumption. For example RO Defence invested more than £400,000 during 2003 in improvements such as more efficient electrical equipment and meters to better monitor energy use. The business has reduced CO₂ emissions by more than 12,000 tonnes since 2000, including a 6,500 reduction this year. It has also joined the UK Emissions Trading Scheme, a UK government programme to encourage businesses to reduce emissions. Eight of our UK sites will be involved with the EU Trading Scheme that will be launched in 2004.

Volatile Organic Compounds (VOCs)

VOCs are used in manufacturing to degrease and clean, and as a solvent in paint. VOCs contribute to smog and can have a negative impact on health. We are committed to reducing the use of VOCs in our operations.

We calculate our VOC emissions by adding the quantities of paint, thinners and solvents we use. In 2003, we reduced emissions of VOCs to air by focusing on the efficient use of materials and using materials containing fewer VOCs.

Waste

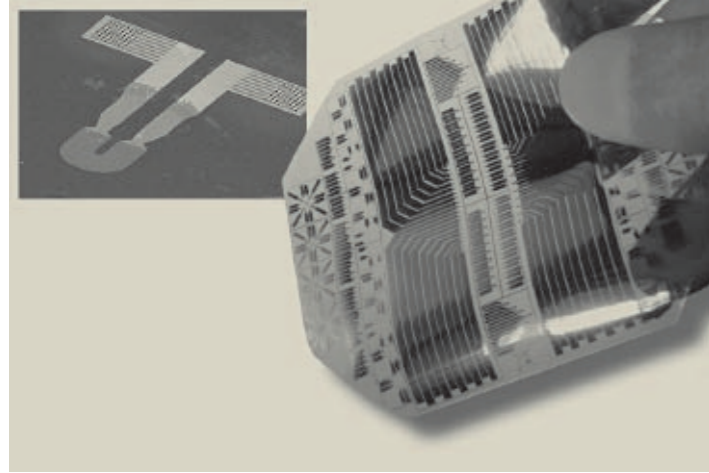
We aim to minimise waste and recycle wherever possible. This helps us conserve natural resources and save money. We categorise our waste as special (hazardous) and general (non-hazardous). Special wastes, mainly paint thinners, are incinerated by licensed waste disposal firms or recycled.

Waste reduction initiatives are managed at Business Unit level. We also have a contractual performance agreement with our waste management company, Cleanaway, in the UK to identify waste minimisation and recycling opportunities. In 2003, this and more efficient use of VOC materials enabled us to reduce the amount of special waste generated.

Water consumption and effluent discharge

Most of the water we use is at our ammunition production and submarine manufacturing sites. Our overall consumption in 2003 has remained similar to that in 2002. More than 95% of our water abstraction in 2002 was used by our Kingsport site in the US. Its operations represented a similar proportion of the recycled water figure. The water use at Kingsport has decreased considerably because of differing production rates. But this decrease was cancelled out by an increase in abstraction in the UK when we began new operations on the Astute submarine at Barrow.

BAE SYSTEMS ADVANCED TECHNOLOGY CENTRE



New ideas and technologies can help reduce the environmental impact of our products.

Our Advanced Technology Centre is developing Micro Electromechanical Machines (MEMS) with the potential to halve aircraft fuel consumption.

Tiny air pumps, smaller than a pinhead, squirt jets of air that change the airflow close to a wing's surface. When applied at just the right location, these devices form a 'smart

skin' around the wing, which reduces aerodynamic drag, potentially by up to 80%. This would enable huge fuel savings and reduce emissions of carbon dioxide.

BAE Systems is working with a number of European partners to develop the technology.

AUSTRALIA – REDUCING WATER CONSUMPTION

A BAE Systems site in Australia has reduced water consumption by refurbishing and upgrading its coating plant. This is saving up to 2.6 mega litres of water per year.

The coating plant uses a water cooling system to keep temperatures low. This uses 20 litres of water per hour per chamber. Previously this water was used once, then discharged.

The site has introduced a closed circuit water cooling system that reuses cooling water. After the initial fill the system uses no water and none is discharged.

CREATING A WILDLIFE PARK FROM A FORMER DEFENCE SITE

BAE Systems Environmental Services has helped create a wildlife park on a former secret weapons testing site in North Wales, UK. The company worked in partnership with the Department for Environment, Food and Rural Affairs (DEFRA) and the local community on the project.

Over 6,000 trees and shrubs were planted to create the right habitat for indigenous species such as bats, badgers, otters and

owls. Two buildings were transformed into bat roosts, and a wildlife pond was created for frogs, toads and newts.

BAE Systems also helped set up a local ecological group to manage the site in the future.



Compliance

As a minimum, we aim to comply with the law and all environmental regulations wherever we operate.

There were no environmental prosecutions in 2003. There were 23 reportable environmental incidents at our sites and 54 complaints from the public relating to environmental matters.

Contaminated land

Land contamination can occur when chemicals, oil or other hazardous materials leak, spill or are disposed of incorrectly. Contamination can be particularly serious when the pollution enters groundwater and is spread beyond the manufacturing site.

In 2002, we implemented a Contaminated Land Strategy to identify any areas of potential pollution throughout BAE Systems UK operations. Over 1,400 hectares of land were inspected during 2003 and management action plans have been developed for these sites. These include further investigation and water and soil sampling to monitor contamination, remediation measures or liaison with appropriate regulatory authorities. Ten of our largest sites will be inspected and assessed during 2004.

Contaminated land is usually dealt with on site closure as part of redevelopment. Contamination issues are managed by our in-house environmental consultancy, within the Shared Services Business Group.

Product Environmental Management

We aim to reduce the impact of our products on the environment where possible. Our Product Assurance Response Centre (PARC) provides information and support to enable our businesses to comply with environmental regulations and reduce environmental impacts during a product's lifecycle from design and production to use and end of life disposal.

It operates a regularly updated website with details of regulations and best practice information on materials and processing technologies.

We've had our say – what do you think?

Tell us your views on how we deal with the issues covered in this report and any others we should be thinking about. Send us an email at csfeedback@baesystems.com.

Credits

Consultancy by Context.

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