

UK Modern Slavery Act

Response 2022



Contents

Statement signed on behalf of

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

This statement is made pursuant to Section 54 of the UK Modern Slavery Act 2015 and sets out the steps BAE Systems plc and its subsidiaries have taken to identify and prevent slavery and human trafficking in our business and supply chain, in the UK, during the year to 31 December 2021.

Approval by subsidiaries

The BAE Systems Modern Slavery Act Response 2022 has been approved by the board of directors of the following subsidiaries:

BAE Systems (Military Air) Overseas Limited

BAE Systems (Oman) Limited

BAE Systems (Operations) Limited

BAE Systems Applied Intelligence Limited

BAE Systems GCS International Limited

BAE Systems Global Combat Systems Munitions Limited

BAE Systems Marine Limited

BAE Systems Surface Ships Limited

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



Charles Woodburn

Chief Executive
BAE Systems plc

Signed 30 March 2022 following Board approvals.

2021 achievements and 2022 plans

What we achieved in 2021

- Established an internal UK modern slavery working group;
- Conducted a desktop assessment of human rights, including modern slavery, across UK operations;
- Conducted a desktop assessment of high risk commodities and locations across tier 1 suppliers;
- Developed revised UK Standard Conditions of Purchase to include provisions concerning modern slavery and the Real Living Wage;
- Became an accredited Living Wage Employer, in the UK, by the Living Wage Foundation;
- Scoped mandatory training for employees who are responsible for procurement in our UK businesses on human rights and modern slavery, to be rolled out during 2022;
- Rolled out our revised mandated employee Code of Conduct which includes a section on human rights and modern slavery; and
- Reviewed the JOSCAR supplier prequalification questions as applicable to enhance the modern slavery section.

What we plan to do in 2022

- Provide a human rights and modern slavery briefing for the modern slavery working group;
- Provide mandatory human rights and modern slavery training to certain employees who are responsible for procurement in our UK businesses;
- Roll out Real Living Wage to contractors working on our sites across the UK;
- Roll out revised UK Standard Conditions of Purchase incorporating provisions on modern slavery and the Real Living Wage and flow-down these new provisions to existing high-risk suppliers where appropriate;
- Revise our Supplier Principles, to include clearer expectations regarding human rights and modern slavery;
- Launch our revised Supplier Principles and engage suppliers on the revised Supplier Principles;
- Update the JOSCAR supplier prequalification questions to enhance the modern slavery section;
- Conduct risk based assurance to confirm compliance with the new Supplier Principles – Guidance for Responsible Business (Supplier Principles);
- Continue to assess and monitor tier 1 suppliers against high risk commodities and locations; and
- Implement key performance indicators in the UK.

2022 key performance indicators

- Number** of UK employees trained in human rights and modern slavery
- Number** of calls to ethics helpline regarding human rights and modern slavery in our business operations or supply chain
- %** of ethics cases completed or in progress regarding human rights and modern slavery in our business and / or supply chain
- %** of high risk suppliers being managed and monitored
- %** of suppliers reviewed against revised Supplier Principles

Business overview

Our purpose

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

We have an important role in society because we:

Help our customers to provide security and safety;

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

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

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

Seek to identify opportunities for individuals from disadvantaged backgrounds;

Support employees' rights in relation to freedom of association;

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

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

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

Care for and support our local communities; and

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

Facts

Global defence supplier and world-leading innovator

Established positions in air, maritime and land domains

Growing position in cyber security

Principal markets – US, UK, Saudi Arabia and Australia

90,500 employees in over 40 countries

Customers in around 80 countries

2021 sales of £21,310m

£10.5bn spent with 20,000 directly-contracted suppliers

We employ a skilled workforce of 90,500 people in more than 40 countries. We help our customers to stay a step ahead when protecting people and national security, critical infrastructure and vital information.

We also work closely with local partners to support economic development through the transfer of knowledge, skills and technology.

Our markets

US

The US continues to represent the single largest defence market in the world. BAE Systems is a top ten defence prime contractor in the US.

UK

BAE Systems is the largest defence company in the UK, with strong and long-standing relationships with the Ministry of Defence and our supply chains.

Saudi Arabia

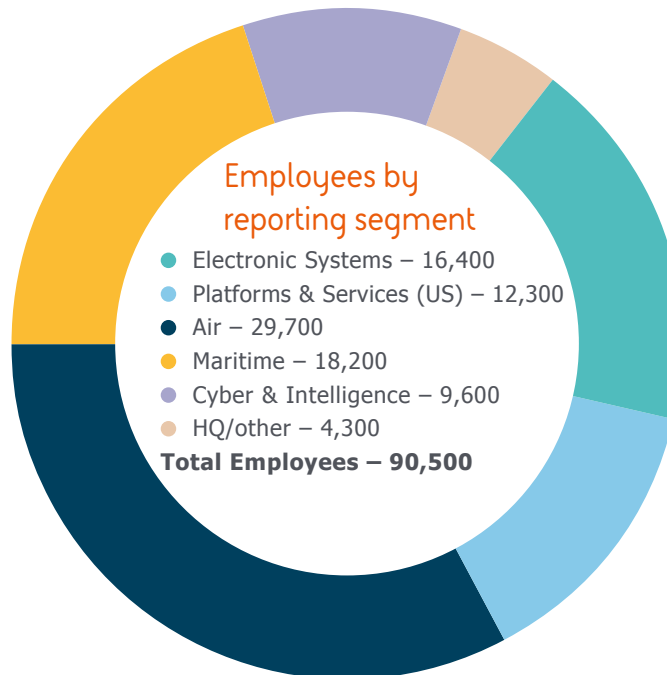
The Kingdom of Saudi Arabia continues to be a leading military power and one of the largest defence markets globally.

Australia

BAE Systems is the largest defence company in Australia, with strong activities across all domains and the business is set to grow significantly in the coming years.

International

BAE Systems has many strong and enduring relationships in international markets.



Our approach to governance of human rights and modern slavery

We are committed to respecting and upholding human rights wherever we operate, in respect of activities under the full, direct control of the Company. This applies equally to our employees, our suppliers and business partners, all of whom are expected to adopt the same or similarly high standards of ethical behaviour. We are committed to conducting business responsibly and to maintaining and improving systems and processes to minimise the risk of slavery and human trafficking in our business or supply chain. Our [human rights statement](#) outlines our approach to responsible business behaviour, including in relation to anti-corruption and the environment, as well as our workplace, supply chain, local communities and products.

Our approach to human rights constitutes

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

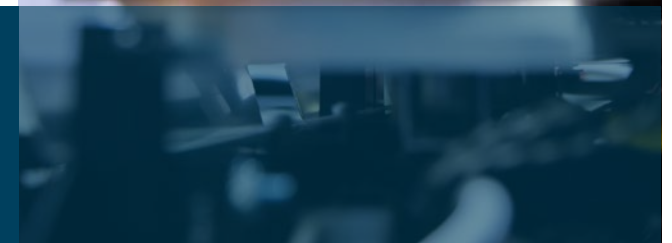
Respecting and supporting the communities in which our businesses are located;

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

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

Responsible product development; and

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



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

Our governance approach

The Board has overall accountability for the broad range of subjects that make up human rights – safety, ethics, responsible business conduct, diversity and inclusion, stakeholder and employee engagement and supplier conduct – areas which are part of our sustainability agenda. The Environment, Social and Governance (ESG) Committee of our Board is dedicated to the oversight of the Company's performance in sustainability, including our approach to human rights across these areas.

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

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

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

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

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

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

Upholding elimination of discrimination in respect of employment and occupation;

Supporting a precautionary approach to environmental challenges;

Undertaking initiatives to promote greater environmental responsibility; and

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

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

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

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

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

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

During 2021, in the UK we conducted a human rights, including modern slavery, desktop review of our directly controlled operations and policies to ensure they identify and mitigate human rights and modern slavery risks and incorporate best practice. (see modern slavery risks in our operations and supply chain).

Code of Conduct

Our updated Code of Conduct was rolled out globally to employees during 2021 and incorporates changes to internal policies and processes and external best practice, as well as a new section on human rights, which includes modern slavery. An employee engagement programme and manager led scenario training supported awareness and understanding of the revised Code. Our training actively encourages all employees to speak up if they have a concern or talk to a colleague, their manager, HR or a legal contact if they need guidance. Our annual conversation-based ethics training offers everyone in our business an opportunity to consider some of the challenges we face in our workplace focusing on those that are particularly relevant to each team.

For more information on our human rights approach and statement visit baesystems.com/humanrights.

Stakeholder engagement

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

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

We maintain a network of over 200 Ethics Officers and we have a 24-hour Ethics Helpline that can be accessed by phone, email or an external website so that employees can ask for support or report a concern, including concerns in respect of human rights issues, including modern slavery. We encourage employees to speak up without retribution and anonymously if preferred.

Our Ethics Helpline is also available for third parties, including suppliers, to raise concerns or discuss issues. Details of how to contact the Ethics Helpline are included within our Supplier Principles and on our website.

If a call regarding human rights or modern slavery was received by our ethics helpline, the call would be escalated for review and allocated to a senior company representative for investigation.

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

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



During 2021

↑ 18%

We received 1,316 ethics enquiries, an increase of 18% compared to 2020



1:400

206 Ethics Officers (one for every 400 employees)



35%

Anonymity rate was 35% compared to 32% from 2020, still well below the benchmark rate of 58%*

* Navex 2021 anonymity benchmark.

Supply chain overview

We collaborate with suppliers to deliver customer capability, spending £10.5bn with more than 20,000 directly-contracted suppliers worldwide. These relationships are often long-lasting due to the complexity of our products and their long lifecycles and so it is critical that our suppliers share our values. To ensure we work with suppliers who share our approach to responsible business, we monitor and manage them throughout the relationship.

Geographic location	% of Total Spend
UNITED KINGDOM	42%
UNITED STATES	36%
SAUDI ARABIA	7%
AUSTRALIA	3%
GERMANY	3%
SWEDEN	2%
CANADA	1%
FRANCE	1%
ITALY	1%

Our ambition in procurement is to be responsible and sustainable across the life of the contracts we have in place. We cannot achieve this alone, therefore it is important that we collaborate and partner with suppliers to make a positive business difference over the long-term.

Governance of supply chain

Our supply chain management starts with our Global Procurement Policy, which defines the requirements to be implemented by each of our businesses for the establishment of procurement control and the management of supplier related risk.

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

Throughout our relationship with our suppliers, we raise awareness of and engage them in our Supplier Principles. Suppliers are regularly reviewed throughout their contractual relationships against such non-financial risks (see Supply chain due diligence and on-going management [page 10](#)).

Our Supplier Principles and our UK Standard Conditions of Purchase require suppliers to comply with all applicable laws and regulations, including those related to human rights, anti-slavery and the environment.

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



We collaborate with suppliers to deliver customer capability, spending £10.5bn with more than 20,000 directly-contracted suppliers worldwide.

Supplier due diligence and ongoing management

Risk-based due diligence is undertaken for all third parties with whom we engage, whether supplier, adviser, potential joint venture partner, acquisition opportunity or other third party. Where required, this may include establishing the identity of the third party in terms of beneficial ownership and gathering of sufficient information to assess relevant bribery and corruption risks.

Prior to approving and selecting suppliers, we outline the products and services we need and establish a way to identify interested suppliers, including small businesses, taking into consideration risk of commodity and supplier location. Once we have a shortlist of potentially suitable suppliers, those suppliers are asked to complete a questionnaire and risk-based due diligence is carried out, as appropriate, against a number of non-financial risks, which may include:

Responsible trading principles - business ethics, anti corruption and anti-bribery, governance and legislation;

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

Health and safety – workplace and product safety;

Environment – impact of operations and products;

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

Responsible sourcing including conflict minerals.

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

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

In some cases, suppliers are approved with mitigation actions or corrective action plans. Each plan is specific to the supplier and project to which it is supplying. An example may be where a potential new supplier may not have a code of conduct in place or an equivalent standard to our own. The action may be to support the supplier to develop and implement their own code of conduct, or if they are not prepared to do this, we may choose to use a different supplier.

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

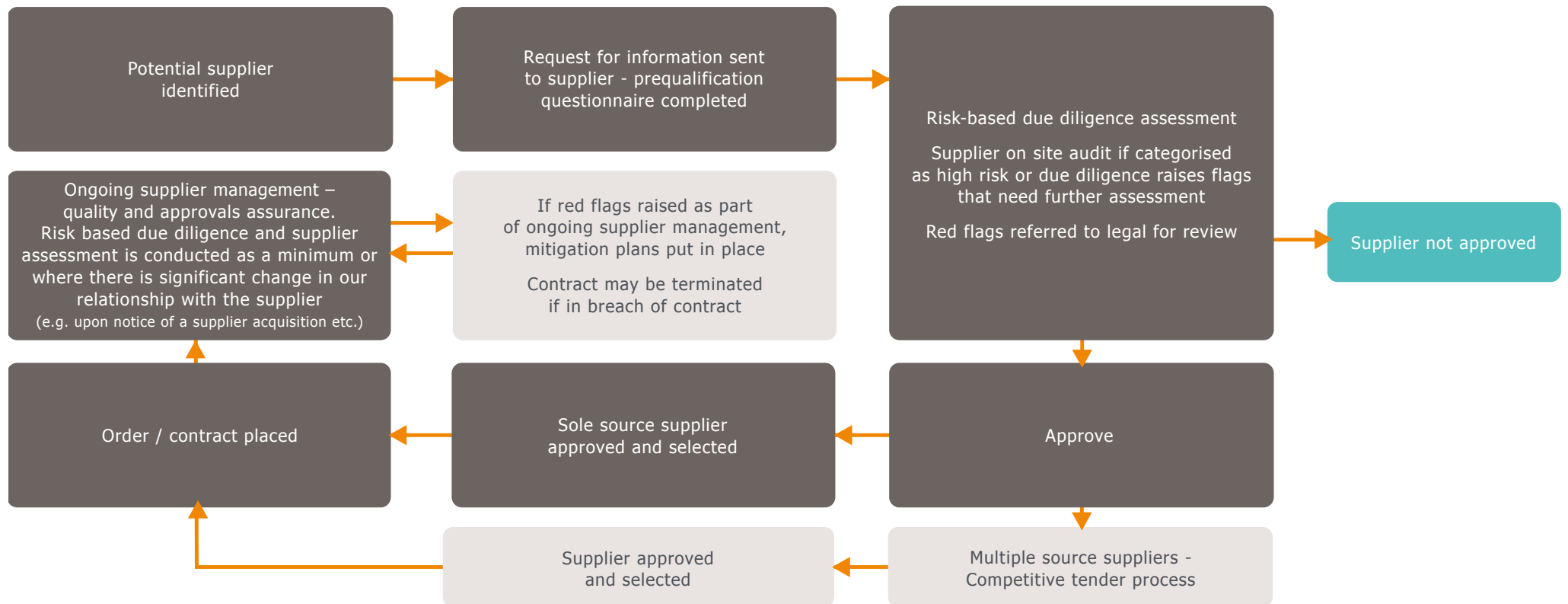


* International Organization for Standardization

Supplier due diligence and ongoing management

Once a supplier has been approved, and a contract has been signed, we continue to actively monitor and manage that supplier throughout the life of the contract, including when there are any significant changes in our relationship with the supplier, by undertaking ongoing risk-based due diligence.

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



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

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

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

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

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

The Board regularly reviews the principal risks we face, including those that would threaten our business model, future performance, solvency, liquidity, or reputation. Such risks are assessed based on the likelihood of occurrence, the potential impact on the Company and the timescale over which they might occur. A summary of these risks, together with details of how they are being mitigated and managed, is included in our 2021 Annual Report. While the risks of modern slavery and human trafficking have been identified through our Operational Framework as potential risks, they are not identified as principal risks for the Company.

During 2021, we established a UK modern slavery working group, to review how modern slavery and human trafficking risk is identified, assessed and managed across our UK businesses and to propose actions which will ensure that the Company is benchmarking its performance in this area and implementing best practice.



Risk related to human rights and modern slavery

During 2021, we conducted a desktop risk assessment of our directly controlled UK operations and global tier 1 suppliers to assess the company's level of risk of human rights and modern slavery. Our UK operational review encompassed a review of policies and processes included within our global Operational Framework and supporting UK level policies. For our suppliers, we assessed against location (geographical risk) and the goods and services provided (products and services risk).

Mitigating operational modern slavery risks

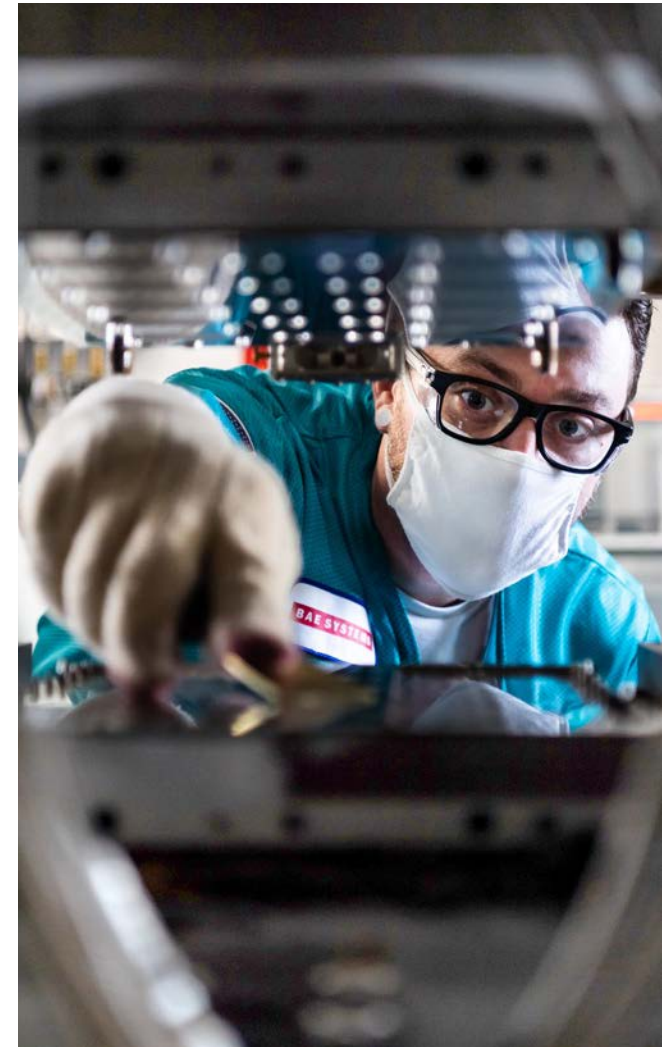
We have considered the location of our employees and the type of work undertaken as the basis for assessing and understanding the modern slavery risks in our UK operations. Insofar as our operations are concerned, the services that we provide directly to our customers are typically of a highly complex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

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

Risks may potentially arise from the engagement of third-party contracted labour performing work on our behalf. Where we work with third party recruitment service providers, they are subject to our supplier due diligence process and Supplier Principles. Suppliers must not charge employees fees, recruitment costs or deposits, directly or indirectly, as a precondition of work and they must handle identification documents in accordance with applicable personal information protection requirements.

We maintain processes designed to ensure that all employees have a contract of employment or offer letter (depending on the jurisdiction of employment) in a language they understand clearly indicating their rights and responsibilities with regard to wages, working hours, benefits and other working and employment conditions. Our processes are designed to ensure we do not retain any original form of employee identification (passports or work permits) and we do not destroy or deny access to such documentation, as a condition of employment unless required by applicable law.

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



Risk related to human rights and modern slavery

Mitigating supply chain modern slavery risks

We have assessed modern slavery risks within our tier 1 supply chain based on where our suppliers are located (geographical risk) and the goods and services provided (products and services risk). Our assessment focused on risks in our directly contracted suppliers.

Suppliers who might be deemed as higher risk were identified through analysis of internal data sets and using external regulatory guidance, for example, the 2020 Trafficking Victims Protection Reauthorization Act (TVPPRA) list of goods produced by child or forced labour. Our assessment concluded that 0.1% of our global tier 1 suppliers might be deemed as higher risk suppliers based on goods and services provided and location. We are carrying out further due diligence on these suppliers and are seeking to revise our contract terms, where appropriate. Going forwards, we will conduct the supplier analysis on an annual basis.

During 2021, we continued supply chain assurance activity to assess compliance with our Supplier Principles. This activity supports us in identifying and mitigating risks across our supply chain. Our assessments covered 25% of global spend. This activity will continue in 2022.

To support our ongoing identification, assessment and management of modern slavery risks, during 2021 we have scoped training for employees who are responsible for procurement in our UK businesses on human rights and modern slavery. This training will be mandated and rolled out during 2022.

To further mitigate risk across our supply chain, in the UK, we have strengthened our Standard Conditions of Purchase, to include provisions on modern slavery and the Real Living Wage. The updated Standard Conditions of Purchase will be rolled out in 2022.

Alongside this, during 2022, the Procurement Function will be conducting a review and refresh of their functional and procurement lifecycle management guidance. As part of this activity, they intend to strengthen the guidance to support supplier assessment and management in respect of ESG, sustainability and modern slavery.

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



0.1% of our global tier 1 suppliers might be deemed as higher risk suppliers based on goods and services provided and location.