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
“We are always looking for new ways to improve and to out-perform our competitors. At BAE SYSTEMS Australia, we knew our design of the Virtual Bid Centre was a revolutionary idea, but now it’s a key competitive advantage for the company and used for every bid we produce.”
Craig Mackenth, Australia

Customers
“In this year, designated ‘Year of the Customer’ for Avionics Group, our aspiration to exceed our customers’ expectations of our work is paramount in all our actions. Of course, we must make every year a ‘Customer Year,’ but I am looking forward to developing some innovative themes in addition to the initiatives already implemented aimed at fulfilling our commitments to customers. We want all our customers, both internal and external, to enjoy working with us, and for them to want to work with us. In our society, there are many opportunities every day to help achieve this - let’s take them!”
Brian Tucker, Senior Vice President Business Acquisition and Customer Relations (BA&CR), BAE SYSTEMS Avionics

People
“Our culture seems to make it difficult for people to talk openly about people’s development needs. I have learned that people really value open and direct feedback and, in turn, are very keen to pursue development plans which genuinely help their progress.”
Nigel Whitehead, Warton, UK

Partnering
“I came to the company because it stood behind me during my five years of engineering studies. From the start I was trusted to work with customers and I have been able to form partnerships not only outside the company but inside, bringing expertise together and integrating ideas to deliver solutions for customers.”
Simon Ling, Arlington, Virginia, USA

Innovation and technology
“In my early career I have been encouraged to be innovative and continually adapt to change – either to produce new ideas or to find new methods for completing tasks. This usually involves brainstorming with people from all areas of the company.”
Anthony Brockley, Waterlooville, UK
BAE SYSTEMS is a transatlantic company with customers across all five continents. We provide advanced systems to defence and aerospace customers in over 130 countries and employ nearly 100,000 people worldwide.

The company offers an international capability in air, sea, land and space systems with a world-class prime contracting ability supported by key skills. We design and manufacture military aircraft, surface ships, submarines, space systems, radar, avionics, communications, electronics, guided weapon systems and a range of other defence products. BAE SYSTEMS is dedicated to making the intelligent connections needed to deliver innovative solutions.

Economic contribution
We contribute to society by producing innovative products and solutions, generating wealth by adding value and distributing this to a range of stakeholders. These include our employees, suppliers and governments.

In 2002, Manchester Business School conducted a detailed study into BAE SYSTEMS’ contribution to the economy in the North West of England, including employment, relationships with local suppliers and the introduction of skills and technology.

The company directly employed 17,500 people in the region in 2001 and a further 18,260 were indirectly employed through the supply chain. The average wage for BAE SYSTEMS employees is £23,000, 20% above the norm. The company spends £530 million a year with local suppliers.

The study identified particular skill sets that BAE SYSTEMS contributes to the region. These include the organisation and management of large, complex engineering projects and the development of software for use in technical, manufacturing, management and commercial applications.

Through volunteering time and donations the company invested a total of £938,334 in the local communities around its sites in the year 2001-2002. But the study concludes that the company should improve its relationship with the communities. Local residents and employees felt that as the company had grown globally it had become less involved in their area.

Economically, the company’s contribution is substantial. The study concluded that “no matter what measures are used, BAE SYSTEMS is extremely important to the economy of the whole of the north west, and vital to some parts of it.”

Our total sales in 2002 were £12,145 million. The chart shows the geographical distribution of this value — by where the products were manufactured and by where they were sold.

CASE STUDY UK

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2002 was tough for BAE SYSTEMS. It is in difficult times that we truly realise the value of our Corporate Social Responsibility (CSR) activities – in particular the value of our people and the relationships we have with our Trade Unions and the communities in which we operate. This value is not developed overnight. Relationships cannot be bought but instead are the result of the long term application of our principles.

Managing our corporate responsibilities is a continuous process. We regularly review our CSR agenda and engage with our key stakeholders to ensure we are addressing the issues that matter to them. There are some who question whether a defence company can be responsible; of course we say we are but recognise differing views. To this end we have included an exchange between ourselves and the campaign group, Saferworld (see pages 12,13). As you can see, we do not reach a mutual conclusion but it is important that we have these conversations to understand others’ viewpoints. They give us an opportunity to explain what it is we do and to thus allow others to come to a view and make decisions based on different, but generally held beliefs.

The theme of this year’s CSR Report is progress. Our education programmes remain core to our employee development and community interaction. The recognition of our apprentice training programme as a Centre for National Excellence was a great achievement. We have continued with our other charitable and community programmes and I am, as always, delighted by the commitment and enthusiasm shown by our employees. We also formalised our UK Ethics Policy (following existing practice in the US) to provide further transparency of the way we manage such issues. I am pleased to see significant reductions in the number of accidents at our sites in 2002 and look to further progress in the future.

In 2002 we ran a mini Employee Opinion Survey to assess progress over last year’s findings. While improvements in many areas were made, the survey also identified issues requiring attention. We are committed to BAE SYSTEMS being recognised as a high performance company and will ensure issues are addressed.

Looking ahead, we will continue to engage with our stakeholders to address their issues and comments. We recognise that if we are to continue delivering innovative solutions we must encourage a diversity of thinking. This means we need a rich variety of people drawn from different backgrounds and cultures, displaying varied attitudes, abilities and skills. We see the promotion of diversity as fundamental to the sustainability of our business. Responsible corporate citizenship is an essential part of running a profitable business. We welcome the rigour of reporting and find it to be extremely useful to monitor and measure our progress. For me, responsible management is an intrinsic part of running a profitable business. We appreciate your views and I urge you to make contact. Write to us (address on report back cover) or use the special e-mail address: csrfeedbak@baesystems.com.

Mike Turner
Chief Executive Officer
BAE SYSTEMS

Objectives 2003

We are committed to continual review and improvement of our CSR agenda. These are our key objectives for 2003:

Continue and improve communication of our CSR activities. During 2002 we sought dialogue with a number of our key stakeholders. We recognise this needs to be continual and structured. Actions for 2003 include establishing a CSR website and formalising our internal communication networks.

Establish improvement targets for safety and environment performance. We now have two years of data for our fully-owned businesses. Analysis of these data helps us to identify key areas where we must improve our performance.

Improve diversity across our operations. We will continue our review of diversity throughout the business and make improvements where possible. We recognise that a range of backgrounds, approaches and thinking is important to our success.

Encourage high performance. Our latest employee opinion survey highlighted progress and identified where we need to improve. We are committed to act and will report on progress.
Establish a company-wide framework to co-ordinate, monitor and develop our CSR activities. In 2002, dialogue with our stakeholders demonstrated that we could not develop a complete CSR framework without improving our understanding of their concerns. In general, they welcomed the information provided in our 2002 CSR Review but they wanted more detail about the specific responsibilities and governance of defence companies. We hope that through further dialogue, and with this Report, we are responding to most of their concerns. We will continue to develop our CSR framework in 2003.

Develop a framework to ensure we deliver on our commitment to the UK Governments’ Revitalising Health and Safety Strategy. In 2002 we instigated a detailed independent safety audit of our primary manufacturing sites in the UK. The objective was to assess safety risk management across all levels of our operations. This raised awareness of issues and has contributed to reducing our accident and days lost rate by almost 20%.

Continue to implement the key aspects of our human resources strategy to enhance business results through the high performance of our people. In 2002 we formally linked performance (as indicated through peer review, 360 degree assessments, employee opinion survey feedback and personal development reviews) to pay and bonuses for our senior employees. We used a system of forced distribution for performance rating to identify our poorer performers and have specifically addressed these issues. Critical areas of the business such as programme management have been reviewed and assigned a high priority and focus by the Executive Committee.

Develop metrics and targets to assess and demonstrate how our CSR activities deliver value to stakeholders. We have made considerable progress in establishing common metrics for all our health, safety and environmental teams. This will help us drive further improvement in performance. We have established reporting metrics on some key aspects of diversity and continue to identify important human resources improvement indicators.

What else did we achieve? Other highlights include:

- Our company-wide charity fundraising programme, Charity Challenge, supported four charities around the world, involving more than 100 sites across all our countries of operation. Our total world-wide charitable giving in 2002 was £1,134,476.
- We implemented a UK Contaminated Land Strategy to manage land issues.
- Our employee opinion survey snapshot indicated improvements in 2002 around employees understanding of their role and business direction and increased overall job satisfaction.
- Established jointly with the trade unions a best practice guide to protect jobs and handle rationalisation.
- BAE SYSTEMS IDS in the US committed to buying at least 10% of its total electricity from wind farms. This was under the GreenChoice programme operated by IDS’ energy provider, Austin Energy.
- In November 2002 BAE SYSTEMS Australia launched Environmental Management Training (EMT) which will continue to be rolled out throughout 2003 at management level across the Australian business.
- The UK Learning and Skills Council designated BAE SYSTEMS as a Centre of Vocational Excellence for its apprentice training programme. We are only one of five work-based learning providers to achieve this status in the UK.
- In Australia our 2002 response to the Equal Opportunity for Women in the Workplace Agency showed an overall 3.7% increase in the percentage of women in our business. This reflected improvements in education and career progression reviews.
- In May 2002 BAE SYSTEMS in Saudi Arabia launched a management development programme for young Saudi employees. The programme is called Mustakbal, the Arabic word for the future.
- In 2002 we reviewed our corporate procedures for export controls in the light of the UK Government’s Code of Practice and the forthcoming Export Control Act. Michael Lester, our Group Legal Director, was nominated as the Board Member with specific responsibilities for this area.
We have specific policies in our Operational Framework that address our key CSR focus areas. In 2002 we made progress towards establishing a company-wide framework to co-ordinate and monitor our CSR activities. This will be further developed in 2003.

Our management structure meets the rigorous requirements of the aerospace, defence and systems industry. It has clear responsibilities through operational line management on business integrity, people issues, safety, health and the environment (SHE) 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. The Control and Risk 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 accounts annually and half yearly on all material aspects of our operations, together with a balanced summary of business performance. These records are available on our website.

We recognise a continuing need to seek and understand the opinions of others. We encourage and welcome feedback on this issue or any other. Our contact details and a feedback form are on the back cover.

**Engaging with our stakeholders**

We encourage dialogue and open communications with all our stakeholders. These include: employees and their families; unions; shareholders; customers; business partners; suppliers; competitors; governments; and local communities. Our stakeholder engagement involves the use of traditional media (such as advertising, brochures, this report and websites) and personal contact, both formal and informal.

In 2002, we engaged more closely with the socially responsible investment (SRI) community. Our sector is seen as controversial by some of these investors. Our intention is to continue to learn more about their concerns and be clearer to all our stakeholders about what we do and how we work (see Role and Responsibilities, page 10).

In October 2002, for example, we were invited by HSBC in the UK to discuss these issues with a group of SRI analysts. HSBC described BAE SYSTEMS as “one of the most progressive thinkers in its sector”. Our stakeholder transparency, ethics hotline, ISO14001 environmental management systems programme and science and engineering education initiative were identified as four strengths. HSBC also identified challenges to be addressed. These included the need for clearer processes for internal responsibility.

An Ethics Review Committee was set up to monitor the policy. This is chaired by the Audit Director and its members are all senior executives drawn from the legal, internal audit, human resource and security departments. The committee meets quarterly. It will review details of all contacts with the hotline to ensure that proper and timely action is taken to resolve issues. The minutes of these meetings will be confidential. We will report yearly on the number of calls and actions taken.

In 2002 the US hotline received an average of 10 calls each month, primarily relating to human resource issues such as equal opportunities.

**Ethics Policy**

In 2002 we formalised our UK Ethics Policy, using the same approach taken by our US operations. The policy gives our UK employees guidance on the behaviour we expect of them in their daily dealings with each other, customers and our stakeholders. An independent hotline is available for employees to discuss their ethical concerns, get advice or report possible breaches of our ethical standards.

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In 2002 the US hotline received an average of 10 calls each month, primarily relating to human resource issues such as equal opportunities.
“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

Our role and responsibilities

BAE SYSTEMS has many responsibilities. We are a large employer with almost 100,000 employees worldwide. We are integrated into local communities, a key supplier to our customers and a significant customer to our many suppliers.

As a defence company we have specific, additional responsibilities. We are proud of our long tradition of innovation and the contribution of aerospace and naval defence systems to security throughout the world. We provide nations with the means of protecting themselves, and peacekeepers with the tools to do their job. We acknowledge and respect the rights of individuals to hold different views on our industry. We want to be open and transparent, engaging with our stakeholders and understanding their views. We are keen to engage in the debate about our role in society.
Dear Steve,

We both agree: one of the highest responsibilities of government is to protect its people and their interests. However, governments have a broader remit. A key element of civilisation is a behaviour set reinforced by rules governing the consequences of non-compliance. Too often we see how veneer of this civilisation can be. Properly used, the power of a state re-enforces those rules thereby providing for the majority to live in a well-ordered society, bound by laws, with recognition of the rights of all - not just those with raw power.

Given that there are those who recognise no law but themselves, who invade to get what they want, who use war to distract from domestic issues, who stimulate the worst natures of their people in order to seize or maintain power, there will remain a need for governments to back up the wishes of the majority with armed force. Whether it be internally, or by intervention when we see others’ rights being abused, governments have an obligation to intervene in order to re-enforce the rules. Unfortunately, success in this is too often rarely achieved with sharply worded letters.

Decisions about where weapons are sold should not be made ultimately by those who make them. Such decisions should be made on the basis of all factors bearing on the matter: political, diplomatic, social, moral and economic. Only government is positioned to do that. As a citizen, I am pleased there is a rigorous regime in the UK to do that. So I am pleased in my professional capacity.

Governments come and go in a constantly changing world. Those who receive or inherit arms need to understand their neighbours will intervene if they abuse the power that such arms give them.

Best wishes, Steve

Paul Eavis

Steve Mogford

Paul Eavis

Dear Steve,

Your argument that responsibility for arms exports rests solely with governments, not manufacturers, sounds peculiarly old-fashioned. It also fails to address the reality of industry-government interactions.

Business obligations extend beyond shareholders. Many companies are involved in a vast range of socially-responsible activities which implicitly recognise that businesses are not morally neutral. The UN Global Compact, involving many of the world’s premier companies, for example IBM and Ericsson, is just one example of the way business are signing up to this role.

Furthermore, arms companies actively attempt to influence governments on arms export control policy. For example, industry has recently been lobbying the UK government on new export control legislation. This is fine – we are doing the same – but any claims to being standing outside the decision-making process are immediately compromised.

BAE’s new motto, Innovating for a safer world, is particularly interesting. As it implicitly recognises that BAE SYSTEMS is not a morally neutral actor. And while it may be governments which make actual licensing decisions, defence companies should develop greater social responsibility through increasing transparency, ending corrupt practices and not promoting exports where there is a risk they will increase instability or repression.

Best wishes, Paul

Steve Mogford

Paul Eavis

Dear Paul,

We are a team of innovators and have been throughout the company’s history. Our systems are used by service men and women across the globe for the defence of their nations and in peace-keeping roles. I believe that our systems give them the means to do their jobs as safely as possible in often very dangerous environments. I am firmly convinced that the responsible supply of arms contributes towards a safer world.

Best wishes, Steve

Steve Mogford

Paul Eavis

Dear Steve,

I am surprised that you call my view ‘old fashioned’. We take our responsibilities to society very seriously. However, on an issue as key as the supply of arms, I would expect government to take the ultimate decision having taken due account of the circumstances and representations from the many stakeholders, this is one of the fundamental aspects of the democracy we value so much.

Companies do have a social responsibility and we are certainly not morally neutral. We work internationally with and for the communities and environments in which we are located. This includes widespread support to charities and work with educators and governments to promote science and engineering in schools. Most of our employees and their families live where they work and our sites have close links with the community. Every year we publish a corporate social responsibility report, and we are committed to being responsible and transparent in our work.

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Dear Paul,

We agree the key issue is the responsible supply of arms. The difficulty is where to draw the line, and Saferworld believes there are many examples where BAE and the Government have overstepped this line.

I’ve already mentioned a number of examples. BAE has also exported Hawk spare parts for use by Zimbabwe in the war in the Congo, is supplying aircraft to South Africa in a multi-billion pound procurement programme widely criticised as completely inappropriate to the country’s needs, and is supplying parts for F-16 jets for eventual supply to Israel, currently using the same aircraft in the Occupied Territories.

The UK Government has set out a number of criteria against which arms exports should be considered, for example the risk that the arms will undermine regional stability or sustainable development. It is hard to see how my examples pass these tests. And it is not just Saferworld saying this: four cross-party committees of MPs have raised the same concerns.

Where arms transfers do more harm than good, the responsibility to prevent them rests with us all. It is important that both governments and arms companies exercise greater restraint, and ensure that arms sales only take place where they make for a demonstrably safer world.

Best wishes, Paul

Steve Mogford

Paul Eavis

Dear Steve,

Every state has the legitimate right to self-defence, however unrestricted arms transfers are too often part of the problem, not the solution. No one doubts the importance of air safety, but poverty-stricken Tanzania spending £28 million on a military air-traffic control system when a better civilian system could have been had for half the cost merely diverts scarce funds away from more urgent priorities. When India and Pakistan are on the brink of a potentially-terrible conflict over Kashmir, will a purchase by India of £1 billion worth of Hawk military aircraft help calm the waters? Arms purchases are often in a professional capacity.

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Governments come and go in a constantly changing world. Those who receive or inherit arms need to understand their neighbours will intervene if they abuse the power that such arms give them.

Best wishes, Steve

Paul Eavis
Our people

Our people’s technological skills and talent for innovation provide our core strength. This is fostered by providing an environment in which our people can perform at their best.

Progress in 2002 includes the implementation of our new Respect at Work Policy in the UK, the formation of our Corporate Diversity Steering Group and the extension of our employee development programmes, including a new Management Development Programme in Saudi Arabia.

EMPLOYMENT POLICY

Key elements of our employment 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 (our new Respect at Work Policy was implemented in March 2002).

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 daily to-day activities.

Grievances Any employee who feels that they have a complaint or 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.

Respect at Work

In March 2002, we formalised our new Respect at Work Policy in the UK. This has been communicated to all UK employees, followed by briefings to line and employee relations managers. The policy deals with employees’ complaints of discrimination, bullying and harassment.

Since its introduction there have been 12 formal complaints. Five were upheld (and disciplinary action taken); two rejected and five withdrawn.

This complements our long standing Respect at Work policies in our US businesses.

Diversity policy and data

Our diversity record, particularly in the UK, reflects our history as a male-dominated engineering company (see table). In the future, we want to reflect better the diversity of the societies in which we operate and this is fundamental to our recruitment policies.

Progress in 2002:
- Formed the Corporate Diversity Steering Group, composed of directors and managers, to oversee all our diversity issues. Each of the business units has a Diversity Implementation Team.
- Reviewed a Group-Wide Diversity Business Case, which will form the basis of our diversity strategy. This is due to be signed by the Executive Council in early 2003. An action plan supports the business case with specific actions and targets agreed which we can monitor and report on progress.
- Launched a new Framework for Excellence in Equality and Diversity (FEED). This is an international benchmark used across Europe and the US, developed by the Equality Foundation consultancy (and replaces the previous version, known as EDFP).
- Held a Race Focus Group attended by employees from different parts of the company. The meeting was facilitated by the diversity specialists Pearn and Kandola. A Race Action Plan was drawn up and is now being discussed by participants.
- Redesigned our internal Equal Opportunities website. Quarterly bulletins are posted and the site is updated daily with diversity-related news from around the world.
- In Australia our 2002 response to the Equal Opportunity for Women in the Workplace Agency showed an overall 3.7% increase in the percentage of women in our business.
- This reflected improvements in education and career progression reviews.

We continue to complete the external benchmarks provided by Race for Opportunity and Opportunity Now in the UK (which rates company performance in encouraging women in the work-place). Between 2001 and 2002 our scores increased from 42% to 57% for Race for Opportunity and from 55% to 60% for Opportunity Now.

Despite our improvement, ensuring greater employee diversity remains a considerable challenge.

DIVERSITY DATA: GENDER

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DIVERSITY DATA: ETHNICITY

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ETHNIC MINORITIES IN THE US

Y | UK 2001 | US 2001 | Australia 2002 |
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DIVERSITY DATA: AGE

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WAGES & SALARIES – NET CONTRIBUTION (£MILLION)

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<tbody>
<tr>
<td>Wages and salaries</td>
<td>12,451</td>
<td>12,469</td>
</tr>
<tr>
<td>Social security costs</td>
<td>1,206</td>
<td>1,203</td>
</tr>
</tbody>
</table>

Corporate Diversity Steering Group formed

Respect at Work Policy implemented
Training and development

The BAE SYSTEMS’ Virtual University has worked closely with Xchanging HR Services (BAE SYSTEMS’ human resources joint venture) to provide extensive training and career support for our employees. The university’s learning portfolio includes 3,000 courses. Some of these are provided directly by the company and others by partner colleges and universities. In 2002, over 17,000 employees registered for the on-line learning service and over 18,000 courses were taken. On average, almost 6,000 training hours a month are delivered to our employees over the Internet. Online training saves travel time and enables each employee to learn at the time, place and pace that suits them best.

An important programme called Engineering Developing You (EDY) was piloted throughout the business in 2002. In 2003 over half of the engineering staff will be using this programme to better manage their career development and improve their contribution to the company. All of our locations in Saudi Arabia have learning centres staffed by specialists. In Australia, the Learning Resource Centre (LRC) has over 500 registered students, who undertook 285 courses and a total of 1,125 days training in 2002. The company also provides internet and intranet training for Australian employees and operates a CD loan library for people at remote sites who do not have internet access.

Apprenticeships

BAE SYSTEMS has approximately 1,100 apprentices. Almost 80% of these are part of a ‘modern apprenticeships’ contract between BAE SYSTEMS and the Learning and Skills Council, the government-funded body responsible for funding and planning education and training for over 16 year-olds in England. The programme has a 95% completion and retention rate.

The UK Learning and Skills Council designated BAE SYSTEMS as a Centre of Vocational Excellence for its apprentice training programme in September 2002. It is one of only five work-based learning providers to achieve this status in the UK.

Graduate training

All our graduate recruits complete our two-year development programme. In a survey, 282 graduate employees identified the opportunity to network and to experience different parts of the business as key benefits of the training. Over 80% strongly agreed that their manager treats them with fairness and respect. But they called for better communication, in particular in managing expectations during recruitment. We are currently undergoing a review of our recruitment process.

Leadership

Our leadership programme is called Performance Centred Leadership (PCL). This measures and develops the performance of our senior leaders. It helps us recognise where we can maximise their potential, identify high flyers early in their careers and manage poor performance. PCL revolves around five leadership competencies: Achieving High Performance; Focusing on the Customer; Developing Others; Continuously Improving; and Working Together. Performance against these competencies is used to set salary and bonus levels and promotional recommendations.

Our Business units also run specific programmes to develop necessary skills. For example, South Australian employees can take part in the Leadership Enterprise Action Programme (LEAP). Participants attend a series of courses which encourage an exchange of learning, ideas and best practice throughout the company.

We also implemented the North American Leadership Development Programme in 2002. Nineteen high potential employees were identified to take part, with the goal being to develop our business leaders of the future.

CASE STUDY UK

UK Prime Minister Tony Blair granted BAE SYSTEMS the status of ‘Centre of Vocational Excellence’ for its apprentice training programme, in September 2002. The company was designated as a centre of excellence by the UK Learning and Skills Council. It is one of only five work-based learning providers to achieve this status in the UK.

We employ 1,100 apprentices in the UK

BAE SYSTEMS designated ‘Centre of Vocational Excellence’ for our apprentice programme

“...We need to move away from doing things the way they have always been done – to encourage people to be more innovative and challenging.”

Feedback in 2002 Employee Opinion Survey

Captain Musa Midnight Mbiokota became the first black South African pilot to fly the Gripen multi-role supersonic fighter in 2002. The aeroplane is jointly owned by BAE SYSTEMS and Saab.

David Martin won the Machining Skills 2002 Competition in the UK. He will go on to represent BAE SYSTEMS in the World Championships in Switzerland in June 2003.

Neil Wespenaar, 17, third from left, beat 12 other entrants to win the UK’s Sheet Metal National Craft Awards 2002.

<table>
<thead>
<tr>
<th>BAE SYSTEMS TRAINING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Division</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>1 Avionics</td>
</tr>
<tr>
<td>2 Air Systems</td>
</tr>
<tr>
<td>3 CS&amp;I</td>
</tr>
<tr>
<td>4 Royal Ordnance</td>
</tr>
<tr>
<td>5 Artificers</td>
</tr>
<tr>
<td>6 Sea Systems</td>
</tr>
<tr>
<td>7 ASU</td>
</tr>
<tr>
<td>8 Shared Services</td>
</tr>
<tr>
<td>9 Head Office</td>
</tr>
<tr>
<td>10 C4ISTAR</td>
</tr>
</tbody>
</table>
Our people

Employee survey
We followed our 2001 employee opinion survey with a smaller ‘snap shot’ aimed at 20% of employees from our wholly-owned businesses around the world. The results show that the Company has made progress in 2002, with scores increasing in areas such as understanding the business plan and customer focus. Over 81% understood how their work contributed to the business plan and 72% said that their team acts on feedback from customers. But people issues and questions relating to innovation have not improved at the same rate. Over 30% of employees felt that poor employee performance is not addressed effectively and they were dissatisfied with the level of recognition received for doing a good job.

Communications
In October 2002 BAE SYSTEMS News was launched. This newsletter provides an update every two months to all our employees on issues that affect them. It includes a message from Mike Turner, our Chief Executive, highlighting key challenges for the business and how the senior management committee is responding.

Overall I am satisfied with my job at BAE SYSTEMS

The company provided me with the materials and equipment I need to do a good job.

In my team we take a proactive approach to meeting customer requirements.

BAE SYSTEMS is a good company to work for compared to other companies I know about.

I am proud to work for BAE SYSTEMS.

In my team we act on feedback we receive from customers.

I have agreed clear and measurable personal objectives with my immediate manager/team leader.

I understand how my job contributes to achieving the business plan.

Questions % Favourable % Difference 2001
I understand how my job contributes to achieving the business plan 84 10
I have agreed clear and measurable personal objectives with my immediate manager/team leader 67 9
In my team we act on feedback we receive from customers 72 8
I am proud to work for BAE SYSTEMS 65 7
BAE SYSTEMS is a good company to work for compared to other companies I know about 58 7
I have access to the information I need to do my job well 67 7
In my team we take a proactive approach to meeting customer requirements 82 6
I have the materials and equipment I need to do a good job 61 6
Overall I am satisfied with my job at BAE SYSTEMS 66 6

This year’s survey also included a BAE SYSTEMS Employee Commitment Index which used indicators such as a sense of being valued, open communication and trust in the workplace. The overall employee commitment score was 64%, which is average when compared with other organisations in similar sectors. We intend to improve and will report on progress.

CASE STUDY UK
Emma Blake, CIMA Young Business Manager of the Year Award
Finance graduate Emma Blake, 24, won the Chartered Institute of Management Accountants (CIMA) 2002 Young Business Manager of the Year Award. Since joining BAE SYSTEMS in September 2002 she has taken on challenging opportunities in different parts of the business as part of the Finance Leader Development Programme. Her first role with the company was working on Private Finance Initiative bids in the UK. She then worked in Washington DC, US, putting together the 2002 operational planning budget for Airbus North America. For a finance graduate who still felt like a learner, she says, “this provided the challenge and responsibility that my personality and strong ambition was looking for.” She has had placements in the Military Aircraft Solutions and Support Business and at head office, where she worked on BAE SYSTEMS 2002 interim results. Emma now works with Eurofighter Typhoon. She says: “I have really enjoyed the excitement placement, solving complex problems and progressing through personal challenges.”

CASE STUDY SAUDI ARABIA
Mustakbal management development programme

In May 2002 BAE SYSTEMS in Saudi Arabia launched a management development programme for young Saudi employees. The programme is called Mustakbal, the Arabic word for future. It tests candidates’ potential for future management roles then provides training over a period of five to 10 years. A partnership between the company, trade unions and local political leaders led to the sensitive handling and substantial reductions in compulsory redundancies at our shipyards on the Clyde in Scotland. “It was an outstanding example of modern industrial relations practice across a wide range of complex and difficult issues,” said Wendy Alexander, the former Scottish Minister for Enterprise, Transport and Lifelong Learning.

In 2002, we invested £2.5m in a New Start programme which provides employees with the opportunity to learn new skills. Over 200 employees undertook full time dedicated re-training in systems, support services or trade roles. New Start will continue in 2003.

Trade unions consult on a wide range of issues, including business strategy, pensions and training.

£2.5 million invested in New Start retraining programme

CASE STUDY USA
Young Business Manager of the Year Award
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Working in communities

Our community policy is based on three principles:
- Effective two-way communications and respect
- Active partnership based on trust and openness
- Maintenance of long term social and economic well-being.

Everyday decisions on community relations are made locally by our site managers. These include ensuring good relations with neighbours, addressing complaints such as noise and traffic congestion and allocating local sponsorships. Education programmes for both our own employees and within the local community remain a focal point of our community activities.

CHARITIES SUPPORTED IN 2002 INCLUDE:

<table>
<thead>
<tr>
<th>Youth</th>
<th>Medical Research</th>
<th>Armed Services Welfare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country Holidays for Inner City Kids</td>
<td>Multiple Sclerosis Society</td>
<td>RAF Benevolent Fund</td>
</tr>
<tr>
<td>National Association of Dads for Young People</td>
<td>National Eye Research Centre</td>
<td>King George’s Fund for Sailors</td>
</tr>
<tr>
<td>The Weston Spirit</td>
<td>Medical Engineering Resource Unit (MERU)</td>
<td>Army Benevolent Fund</td>
</tr>
<tr>
<td>Cornwall Council</td>
<td>Rheuma</td>
<td>RAP Appreciation</td>
</tr>
<tr>
<td>National Missing Persons’ Helpline</td>
<td>The Widbome Trust</td>
<td>Combat Stress</td>
</tr>
<tr>
<td>National Autistic Society</td>
<td>Breast Cancer Campaign</td>
<td>United Services Organization (USO)</td>
</tr>
<tr>
<td>Girl Scouts of America</td>
<td>Yosemite National Park Research Foundation</td>
<td>March of Dimes</td>
</tr>
<tr>
<td>Make a Wish Foundation</td>
<td>March of Dimes</td>
<td>American Cancer Society</td>
</tr>
</tbody>
</table>

Since 1990 we have had a company-wide programme called Charity Challenge (see box) which has raised more than £8 million for charities since it was started in 1990. This combines employee contributions in time and money with matched donations by the company. Some business divisions operate Pay As You Earn schemes to encourage giving by employees. In 2002, the UK’s Guardian newspaper ranked BAE SYSTEMS 15th in its list of the top 100 charitable givers among UK-based businesses. Companies were graded according to the total donations – cash, kind, staff time and management time, expressed as a percentage of pre-tax profits.

Our North American operations were listed in the 2002 Greater Washington DC Top Philanthropic Companies.

£1,134,476 donated to charity in 2002

**Charity Challenge**

Charity Challenge is a company-wide fund raising programme which helps employees to support a number of charitable causes. As part of this, employees vote for a partnership charity in their country which then gains focused support over an 18-month campaign. The company matches funding and gives extra financial incentives to the charities when they provide employee volunteering opportunities. The partnership charities supported in 2002 were NCH, the Make-A-Wish Foundation and The Salvation Army. An emphasis on volunteering means that both the charities and our employees benefit from the programme. Employees gain teamwork, project management and communication skills. Involvement days often include staff from several sites working together in a team, when they help develop networks across the organisation.

In Derbyshire in the UK, for example, a group of young employees from different sites spent a day creating a garden for the Yew Trees project; which provides holidays for young people with physical or learning disabilities. The employees built a new water feature, sensory garden area and a wheelchair ramp with materials donated by local businesses. Since 1990 we have had a company-wide programme called Charity Challenge (see box) which has raised more than £8 million for charities since it was started in 1990. This combines employee contributions in time and money with matched donations by the company. Some business divisions operate Pay As You Earn schemes to encourage giving by employees. In 2002, the UK’s Guardian newspaper ranked BAE SYSTEMS 15th in its list of the top 100 charitable givers among UK-based businesses. Companies were graded according to the total donations – cash, kind, staff time and management time, expressed as a percentage of pre-tax profits. Our North American operations were listed in the 2002 Greater Washington DC Top Philanthropic Companies.

£1,134,476 donated to charity in 2002

**Employee volunteering**

We encourage our employees to do volunteer work in their local communities. The Charity Challenge Involvement Day initiative encourages employees to do this in a number of ways, ranging from gardening to IT training. For example, in Scotland employees from five sites in the Edinburgh and Glasgow areas spent two days renovating a remote family centre and transforming its garden.

In Australia, employees helped with the Salvation Army Christmas appeal and volunteered their time to collect presents and food for the local community. Employees in San Diego in the US raised money and volunteered their time to provide over 200 bicycles to children of military families through the USO and the San Diego Center for Children.
Education in the community

Education is a central part of our community involvement. We work with schools and governmentsto help encourage young people to seek careers in engineering, which has clear benefits for our industry. Our education programme is best established in the UK and US but we have projects in Abu Dhabi, Brazil, Brunei, Czech Republic, Kuwait, Malaysia, Qatar, Saudi Arabia and South Africa.

UK Schools Network

In 2002, the BAE SYSTEMS Schools Network was extended to cover the whole country and 1,296 schools registered as members. The network aims to inspire young people to pursue a career in engineering. It also provides valuable opportunities for employees to become involved with local schools.

The network is organised in a similar way to BAE SYSTEMS’ relationships with its suppliers. It involves partnerships between the company and schools, as well as between individual schools. Its website (www.baesystems.com/ education) is the central hub where schools can access materials and make contact with the company and each other.

The network and website provide schools with:
- Engineering challenges for the classroom. These give pupils hands-on experience of high tech engineering processes
- Curriculum material for pupils aged five to 18 years
- Access to BAE SYSTEMS ‘Ambassadors’ – employees who visit schools to provide engineering and careers advice. In 2002, 2,969 employees signed up to the programme, raising the total number of Ambassadors to 5,085
- Work-experience placements at BAE SYSTEMS for pupils over 14 years
- Individual and management development tools for teachers.

Specialist schools

We support the UK government’s specialist schools programme. This grants specialist status to secondary schools that are strong in a particular discipline. We sponsor schools looking to gain the status in engineering, maths and science. Each school has to submit a detailed four year plan to the education department. BAE SYSTEMS is currently supporting four schools specialising in engineering: Devonport High School Plymouth; Broadlands School Bristol; City of Portsmouth School; and Westfield High School for Girls.

Schools Award for Environmental Action

BAE SYSTEMS in North West England sponsors this award that aims to encourage environmental activity and awareness in schools. Twenty-eight schools from around the region entered the competition. The 2002 winners were Rawcliffe CE Primary School for an Owls Wood opposite the school and Ashton Heyes Primary School for their plans to develop a woodland learning zone.

CASE STUDY US

Supporting Van Ness Elementary

When BAE SYSTEMS Applied Technologies (part of the Naval Systems division) relocated to central Washington DC employees began supporting the local school, called Van Ness Elementary. Their work included fundraising, donating equipment and helping with tuition. Over 280 children have benefited from the project. The team’s efforts were recognised with a Gold Award in our 2002 Chairman’s Award for Innovation.

CASE STUDY SAUDI ARABIA

Sponsoring education programmes

We support education programmes in Saudi Arabia. BAE SYSTEMS sponsors a number of programmes to encourage young people to study engineering and academic exchanges. Specific projects include:
- Alfaisal University. In 2002, we became a founder of the Alfaisal University, pledging funds and offering training expertise from our joint venture company, Saudi Development and Training. The university is expected to open in September 2003 and will provide Saudi students with an international education in science, engineering and technology.
- Chevening Scholarships. These are run by the British Council in over 100 countries around the world. They are given to young people who have a bachelor’s degree and a minimum of three years work experience. The scholarships fund a year’s study in the UK. The intention is for scholars to return with skills that will contribute to the development and wealth of their home country. BAE SYSTEMS funded 15 scholarships in 2002, up from seven in 2001.

US

In the US we work with local schools, providing mentors and tutors, donating equipment and sponsoring internships and scholarships. Activities in 2002 include:
- For Inspiration and Recognition of Science and Technology (FIRST) robotics tournament. This competition challenges high school students to the field of engineering by designing and building a remote control robot. In 2002, BAE SYSTEMS employees worked at business sites across the US coached and supported more than 150 high school students, including the team from Bayshore High School, New York, that won 2nd place in their division and 5th place nationally in a field of more than 1000 teams
- Beekman County Coalition for Better Schools. BAE SYSTEMS leads this partnership between local businesses and schools in eight New York districts. In 2002, the Coalition’s major event was National Reading Day. Over 600 students came together in a shopping mall to take part in space-themed writing, art and model-making competitions.
- Community Reading Day. BAE SYSTEMS Lornsdale sponsored the local Community Reading Day, organised by the North Penn Chamber of Commerce. Members of the Chamber of Commerce visited 27 schools in the area to read a book to pupils before presenting it to the school
- Women in Technology Programme. Information and Electronic Warfare Systems (IEWS) participated in the 16-week initiative. The programme introduces female students to practical applications of mathematics and science in industry.
- Fixing Older Computers for Use of Students (FOCUS). By the end of 2002, BAE SYSTEMS had refurbished over 1,800 PCs and donated them to local schools and not-for-profit organisations.

Australia

- SEARFE radio-frequency project. BAE SYSTEMS Australia are sponsoring school students to measure the background levels of radio signals in their local area using a radio receiver, antenna and special software. The results of the Students Exploring Australia’s Radio-Frequency Environment project (SEARFE) will be compared on the internet and used to help scientists locate a future international radio telescope.
- Harvey Knox Scholarship. This scholarship gives young people the opportunity to realise their goals and contribute to the Hunter region in New South Wales. The 2002 winner, Sara Hudson, was sponsored to train in yacht design in the US.

Fixing Older Computers for Use of Students (FOCUS)

We support local schools and organisations who have an interest in science and technology. The goal is to give young people a chance to realise their potential and acquire the necessary skills.

In 2002, BAE SYSTEMS were particularly involved with the Students Exploring Australia’s Radio-Frequency Environment (SEARFE) project. This involves students spending time at science and technology centres, universities and government agencies across Australia.

New science and technology university in Saudi Arabia founded with BAE SYSTEMS support

BAE SYSTEMS is a corporate sponsor of the British Council Council run programme, which provides scholarships for students in science, engineering and technology. The scholarships are given to young people who have a bachelor’s degree and a minimum of three years work experience. BAE SYSTEMS is a corporate sponsor of this programme in Saudi Arabia. The programme provides training and skills transfer to Saudi Arabia. It provides opportunities for students to gain practical experience and to return home to use their skills in the country.

580 BAE SYSTEMS ‘Ambassadors’ promote science learning in schools

It involves partnerships between the company and schools, as well as between individual schools. Its website (www.baesystems.com/education) is the central hub where schools can access materials and make contact with the company and each other.

Our education programmes in UK and the US are a priority for both governments and are a priority for both governments. In 2002, the two countries signed a Memorandum of Understanding for sport, which now brings together over 25 British universities to develop sporting activities. Our activities included sports camps, support for primary schools’ PE work, steering courses. Two Saudi football coaches were also funded on an international football/academic course run by the English Football Association.

The programme makes a strong contribution to special needs and Para Olympic exchanges, encouraging youth exchanges for the physically disabled and mentally handicapped. A disabled Saudi joined the crew of the British sailing team the Lord Nelson, which has been specifically designed to support the disabled.

580 BAE SYSTEMS ‘Ambassadors’ promote science learning in schools

New science and technology university in Saudi Arabia founded with BAE SYSTEMS support
Safety and health

The nature of our manufacturing and the materials we use – including explosives and nuclear fuels – demands that our first priority is the safety of our people and the communities around our facilities. Our safety performance is closely scrutinised by the Board.

As with other manufacturing businesses, our employees and contractors are exposed to a range of safety risks. Most of our heavy manufacturing takes place in the UK, where our accident record continues to be lower than the UK average in the sector. In 2002 we commissioned detailed safety audits of primary UK manufacturing facilities to further focus on improvements in our safety performance. We have achieved an 8% reduction in major and reportable accidents and an almost 40% reduction in total injuries in the workplace. We are committed to identify the primary causes of accidents to help us prevent them in the future.

One of last year’s key objectives was to develop and implement a framework to ensure we deliver on our commitment to the UK Government’s Revitalising Health and Safety Strategy. In 2002 we instigated a detailed independent safety audit programme of our primary manufacturing sites in the UK. The objective was to assess safety risk management across all levels of our operations. This raised awareness of issues and has contributed to driving our accident and days lost rate down. We also worked with the Health and Safety Executive (HSE), as part of an aerospace industry group, to review and develop toolkits to address the primary causes of accidents as identified through ‘Revitalising’. We are currently discussing the next phase of this programme with the HSE.

Health policy and practice

We aim to protect the health of our employees and contractors by providing a safe workplace where risks are identified and well managed.

The main health risks to those who work for us are noise, hand-arm vibration and respiratory and skin irritation. We also handle explosives and nuclear energy, and apply rigorous health and safety systems to provide the necessary protection.

An essential part of managing health at work is monitoring trends, analysing the results and providing the necessary improvements to ensure a healthy workplace. We do this in four ways: by applying best practice standards; publishing data on reportable diseases; monitoring the health of our employees; and encouraging them to lead healthy lives.

Standards

In line with our commitment to be a best practice employer, we conform to national legal standards and aim to align with current best practice.

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

We are committed to the highest standards of health and safety in the workplace and product safety. We have management systems in place to ensure this. Health and safety is an area for which all employees have a personal responsibility in all aspects of their day-to-day activities.

CASE STUDY UK

Rochester unit wins two major safety awards

In April 2002 BAE SYSTEMS in Rochester, UK, won two major safety awards.

The first was the Royal Society for the Prevention of Accidents (RoSPA) Gold Award for safety. This was the first year the company had competed. The second was the British Safety Council National Award, which the company won for the second year running. The award reflects strict and demanding criteria, which looked at all the company’s safety procedures, accident rates and use of best practice. Paul Ashenden, safety advisor at Rochester, says:

“These awards are not just in recognition of the commitment by us as a company to reduce accidents, but show that we have a robust health and safety management system in place.”

We refer to footnote on page 27.

CASE STUDY SAUDI ARABIA

Working with our customers on safety

It is important that we manage health and safety issues in co-operation with our customers. This is because 80% of our employees there work in businesses owned and managed by our customers, principally the Royal Saudi Air Force and Royal Saudi Naval Force. In 2002, inspectors from the British Safety Council audited our establishments in Saudi Arabia and introduced changes that will help us work more closely with our customers. This will benefit not only our own employees but also servicemen in the Saudi armed forces.

<table>
<thead>
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<tbody>
<tr>
<td>UK major accidents</td>
<td>30</td>
<td>31</td>
</tr>
<tr>
<td>UK rate per 100,000 employees</td>
<td>68</td>
<td>70</td>
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<tr>
<td>US major accidents</td>
<td>6</td>
<td>6</td>
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<tr>
<td>US rate per 100,000 employees</td>
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<td>34</td>
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<tr>
<td>Australia major accidents</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Australia rate per 100,000 employees</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total major accidents</td>
<td>38</td>
<td>37</td>
</tr>
<tr>
<td>Total rate per 100,000 employees</td>
<td>61</td>
<td>56</td>
</tr>
<tr>
<td>* No data available</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| REPORTABLE ACCIDENTS | | |
|----------------------| | |
| UK reportable accidents | 370 | 390 |
| UK rate per 100,000 employees | 347 | 347 |
| US reportable accidents | 950 | 460 |
| US rate per 100,000 employees | 947 | 447 |
| Australia reportable accidents | 0 | 0 |
| Australia rate per 100,000 employees | 0 | 0 |
| Total reportable accidents | 1,320 | 850 |
| Total rate per 100,000 employees | 1,320 | 850 |
| * No data available |

<table>
<thead>
<tr>
<th>TOTAL INJURIES</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK total injuries</td>
<td>10,581</td>
<td>5,765</td>
</tr>
<tr>
<td>UK rate per 100,000 employees</td>
<td>23,992</td>
<td>13,148</td>
</tr>
<tr>
<td>US total injuries</td>
<td>474</td>
<td>331</td>
</tr>
<tr>
<td>US rate per 100,000 employees</td>
<td>3,218</td>
<td>1,891</td>
</tr>
<tr>
<td>Australia total injuries</td>
<td>*</td>
<td>58</td>
</tr>
<tr>
<td>Australia rate per 100,000 employees</td>
<td>*</td>
<td>1,289</td>
</tr>
<tr>
<td>Total injuries</td>
<td>11,055</td>
<td>6,174</td>
</tr>
<tr>
<td>Total rate per 100,000 employees</td>
<td>17846</td>
<td>9,355</td>
</tr>
<tr>
<td>* No data available</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

MAJOR ACCIDENTS

We refer to footnote on page 27.

Health policy and practice

In Saudi Arabia it is important that we manage health and safety issues in co-operation with our customers. This is because 80% of our employees there work in businesses owned and managed by our customers, principally the Royal Saudi Air Force and Royal Saudi Naval Force. In 2002, inspectors from the British Safety Council audited our establishments in Saudi Arabia and introduced changes that will help us work more closely with our customers. This will benefit not only our own employees but also servicemen in the Saudi armed forces.

Detailed safety audits of primary UK manufacturing facilities commissioned

40% decrease in workplace injuries in 2002

Stanford, Canada, in 2002.
Rewarding best practice

BAE SYSTEMS presents annual awards to promote and reward excellence in SHE best practice. These cover the key areas of safety, occupational health, environment, occupational hygiene and IT solutions. Winners in 2002 included a management system for Hand Arm Vibration Syndrome and an office ergonomics programme to adjust individual workstations to suit each employee.

**Nuclear safety**

The Royal Navy’s nuclear submarines are built at Barrow, but levels of discharge to the environment are controlled through stringent limits regulated by the Environment Agency.

We recognise the concern shown in the community for the potential impact of our nuclear work. We maintain close links with the local authorities. There is regular communication about the future submarine programme and local meetings are held, attended by councillors and the public.

**Explosives**

BAE SYSTEMS has sites in the UK and the US that manufacture, store and assemble explosives. To prevent accidents we have a structured approach to evaluate hazards, manage the risks and plan for emergencies.

In the UK, an effective approach has to be demonstrated to the combined competent authority of the Health and Safety Executive and the Environment Agency, or the Scottish Environment Protection Agency, in the form of a safety report for each site.

No member of the public has ever been injured as a result of an accident on our sites. Employees, while working with hazardous materials, are exposed to the same risks as those in the manufacturing industry.

We recognise that good safety management requires the commitment and involvement of all. We value the involvement and efforts of the trade unions in supporting and encouraging the continuous drive for safety improvement across our business.

**Fatalities**

There were two fatalities in 2002; the first occurred during a company organised outward bound course and the second occurred at a company sports day. Both events resulted from (previously unknown) health issues and the company was not held responsible for either. Subsequently we have reviewed our policies and procedures for extra curricular activities, although it is recognised that this could not have averted either of the two fatalities.

**Reportable diseases**

We collect data on reportable diseases, which are those related to a particular activity at work and defined in law. In 2002 a collective dose of 8.9 mSv was recorded and an average dose of 0.149 mSv for 59 people engaged in radiation related work. This was compared with a collective dose of 8.8 mSv and average dose of 0.149 mSv in 2001.

**HEALTHSCREEN**

We offer a comprehensive programme of medical checks, including blood pressure, cholesterol and body mass index, for all our regular employees. These are voluntary and are offered every 3 years. It is an opportunity for employees to ask questions about their health, get advice on healthy living and have their medical condition reviewed.

Our Product Safety Policy commits us to minimise risk for operators, the public, property and the environment.

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BAE SYSTEMS has diverse manufacturing operations ranging from heavy engineering, such as the construction of ships and aircraft, to software design. We are committed to minimising the environmental impacts of our products. Key progress in 2002 included RO Defence’s participation in the UK Emissions Trading Scheme and the recognition of our Fort Wayne site in the US as a ‘performance track’ site by the US Environmental Protection Agency.

**Impacts**

Our potentially significant environmental impacts are:
- 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 a formal Environmental policy which commits us to:
- Holding individuals, teams and managers accountable for the environmental impacts of our products
- Managing environmental issues and minimising risks as part of this process
- Using appropriate management tools and techniques.

In 2001, we set a target for all of our major manufacturing sites to be certified to the international environmental management systems standard ISO14001 by the end of 2003. The main facilities in the UK still to achieve this are our three marine sites at Barrow, Govan and Scotstoun. These sites are implementing the necessary systems. An initial external assessment was carried out in September 2002. Its findings have been used to develop an implementation plan, including an environmental management training course and a register of legislation. A follow-up assessment will be conducted in April 2003, with a view to achieving certification in early 2004.

We have a common set of environmental reporting indicators that apply across the group. Improvement targets are currently set at group level.

**CASE STUDY UK**

In 2002 BAE SYSTEMS launched a “design an environmental poster” competition in primary schools in Scotland. Over 70 pupils submitted posters to the competition.

**CASE STUDY UK**

Improving a hospice garden with recycled material
A group of BAE SYSTEMS Air Systems employees used waste concrete from our Royal Ordnance operations to re-lay 160 metres of pathways at St Catherine’s hospice near Preston, Lancashire, UK. The paths made the gardens and grounds more accessible for infirm and wheelchair-bound patients.

The aim of the project was to use as much recycled material as possible. Trees and bushes that were cleared during the project were chipped into a mulch which was also re-used around the gardens.

Integrated Defense Solutions in the US commits to source 10% of electricity from wind power.

“We enjoyed learning about our environment and how to look after it. We are all going to try to remember to recycle our rubbish and keep our world smiling.”

Primary 4 & 5, St Joseph’s Primary School, Blantyre
Energy

Most of the world’s energy is produced by burning fossil fuels (oil, coal and gas), a process that emits carbon dioxide (CO₂) and other gases. CO₂ is one of the principal greenhouse gases that contribute to climate change. The Kyoto Protocol, a UN-brokered agreement, has set global targets for reducing CO₂ emissions. Energy is also a significant cost to us and it makes business sense to use it as efficiently as possible. Collection of energy data helps to manage the usage of our energy.

In 2002, RO Defence entered the UK Emissions Trading Scheme (see case study). BAE SYSTEMS IDS is in the US committed to buying at least 10% of its total electricity from wind farms. This was part of the Green Choice programme operated by IDS’ energy provider, Austin Energy.

We recognise that employees travelling to work and on-company business can have a significant impact on the environment and communities through air pollution and traffic congestion. As with any large organisation, we are finding it difficult to draw up a group-wide transport policy. At a local level, our Air Systems unit conducted a travel survey of 3,000 employees. This found that 67% travel to work alone in their car and 75% experience congestion at least once a week on their way to work. The company plans to work closely with the government initiative TRAVELWISE to compile a travel plan.

Waste

While some waste is inevitable, we are determined to reduce wastes to a minimum. This saves natural resources and money. We categorise our waste as special (hazardous) and general (non-hazardous). Special wastes, mainly paint thinners, are incinerated by licensed waste disposal firms. Our general waste, such as building rubble, is sent to landfills. Water consumption and effluent discharge

Most of our sites use water primarily for heating, washing and domestic purposes. A few of our sites, notably Kingsport, Tennessee in the US also uses water for process cooling. Production levels at this plant have increased dramatically over 2002 and water use has risen correspondingly. A large proportion of the cooling water is recycled but we are committed to improving this figure (see data below). A few sites treat metals and produce effluent that is potentially highly in acid. This is treated before being released under licence to sewers. Specific contaminants, such as cadmium, have been reduced at source to meet UK Environment Agency minimum levels. Because the volume of this effluent is small and managed locally, we do not keep consolidated effluent data. We are committed to driving reductions in overall usage.

VOCs are chemical compounds used in manufacturing to degrease and clean, and as a solvent in paint. VOCs evaporate easily and contribute to the creation of urban smogs. We calculate our VOC output by adding the quantities of paint, thinners and solvents we use. There was a 3% increase in actual output of VOCs in 2002. This is related to the particular stages of production of certain products. We remain committed to driving reductions in overall usage.

Contaminated land

Land contamination can occur when chemicals, oil or other hazardous materials leak, spill or are disposed of incorrectly. The extent of contamination depends on the geology of the local area. Contamination can be particularly serious when the pollution enters groundwater and is spread beyond the manufacturing sites. In 2002, we implemented a Contaminated Land Strategy to identify any areas of potential pollution throughout BAE SYSTEMS UK operations. This was in response to the Contaminated Land Regulations that came into force in England in April 2000. The regulations are designed to hold polluters responsible for historical land contamination, where it poses a risk of significant harm to humans or water supplies.

Under the legislation BAE SYSTEMS is potentially responsible for any contamination that it has caused in the past. The government called on industry to respond with voluntary action. Our Contaminated Land Strategy requires the support of all our UK Business Units. For many of our sites, the work identified at present is simply to investigate the possibility of any potential contamination. Contaminated land has been an issue on a number of sites. This has mainly been discovered on site closure and dealt with as part of redevelopment. Contamination issues are managed by our in-house environmental consultancy, within the new Shared Services Business Group.

Energy Use (GWh)

<table>
<thead>
<tr>
<th>Parameter</th>
<th>2001</th>
<th>2002</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>1,225</td>
<td>792</td>
<td>1,103</td>
<td>881</td>
</tr>
<tr>
<td>Gas</td>
<td>124,415*</td>
<td>10,541</td>
<td>137,631</td>
<td>130</td>
</tr>
<tr>
<td>Total energy use</td>
<td>125,630</td>
<td>1,910</td>
<td>139,739</td>
<td>202</td>
</tr>
<tr>
<td>Total CO₂ emissions (million tonnes)</td>
<td>3.7</td>
<td>0.06</td>
<td>0.4</td>
<td>0.007</td>
</tr>
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</table>

VOCs to air

<table>
<thead>
<tr>
<th>Parameter</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>VOCs to air</td>
<td>37.3</td>
<td>38.5</td>
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Waste

<table>
<thead>
<tr>
<th>Parameter</th>
<th>2001</th>
<th>2002</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total general waste</td>
<td>553,678</td>
<td>489,985</td>
<td>61,240</td>
<td>60,300</td>
</tr>
<tr>
<td>Total special waste</td>
<td>222,704</td>
<td>128,831</td>
<td>3.7</td>
<td>3.2</td>
</tr>
<tr>
<td>Recycled</td>
<td>560,245</td>
<td>385,130</td>
<td>65,286</td>
<td>45,233</td>
</tr>
</tbody>
</table>

WATER AND EFFLUENT

<table>
<thead>
<tr>
<th>Parameter</th>
<th>2001</th>
<th>2002</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total water mains</td>
<td>4</td>
<td>13</td>
<td>0.44</td>
<td>1.6</td>
</tr>
<tr>
<td>Total water abstracted</td>
<td>25</td>
<td>49</td>
<td>0.22</td>
<td>0.25</td>
</tr>
<tr>
<td>Recycled</td>
<td>0.3</td>
<td>8</td>
<td>0.03</td>
<td>1</td>
</tr>
</tbody>
</table>

* We consider this value to be erroneous due to misapplication of units and the value reported this year as a more accurate figure against which to measure future performance.

Environmental Impact of BAE SYSTEMS

The Environmental Impact of BAE SYSTEMS is measured through the quantification of environmental parameters. Data is collected from our various manufacturing sites on specific parameters, including energy use, water consumption, VOC emissions, total CO₂ emissions, and general waste. The data is then used to calculate Environmental Performance Indices (EPIs) for each parameter.

- Energy Use: BAE SYSTEMS aims to reduce its energy consumption by 5,500 tonnes of CO₂ emissions by 2006, as part of the UK Emissions Trading Scheme.
- Water Consumption: The company is committed to water conservation, reducing water consumption by 15% over the next five years.
- VOC Emissions: BAE SYSTEMS is working towards reducing VOC emissions from its operations. The company targets a 10% reduction in VOC emissions by 2010.
- CO₂ Emissions: BAE SYSTEMS is committed to reducing its total CO₂ emissions by 20% by 2012, as part of the UK Climate Change Programme.

BAE SYSTEMS Corporate Social Responsibility Report 2002
Compliance

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

Environment

During 2002 there was one prosecution, 19 reportable environmental incidents and 134 public complaints related to environmental issues. The majority of complaints were primarily related to noise issues at sites involved in testing aircraft. In response to this at our Marston site, we have entered into consultation with the public and affected communities. Measures to address this include prior notification of aircraft test times on a dedicated web site.

Safety

In 2002 there was one safety warning and one safety prosecution against BAE SYSTEMS in the UK:

Prestwick: BAE SYSTEMS received an Improvement Notice under the Working Time Directive Regulations at Prestwick, our aircraft facility in Scotland. Most of the individuals involved were supporting the Nimrod Project. We have improved our process for monitoring the hours worked and are investigating a new time and attendance system.

Barrow: BAE SYSTEMS was fined £25,000 plus costs following an accident at our Barrow-in-Furness ship building facilities which injured two people. The company was prosecuted for failing to provide suitable and sufficient risk assessment, maintenance and safe systems of work.

CASE STUDY UK

Innovating with infra-red protects the environment

The Central Treatments Facility (CTF) at Samlesbury in north west England has developed infra red technology to cure (dry) aircraft components. The Groundwork Business Environmental Association presented BAE SYSTEMS Air Systems with an Environmental Innovation award in recognition of this. Previously, a large gas oven was used to heat the painted aircraft components but this used large amounts of energy. The new infra-red technology reduces the drying time by 700%, to a matter of minutes. It increases the factory output and reduces the temperature needed to cure the paint. It also significantly reduces the emission of Volatile Organic Compounds (VOCs), which contribute to urban smog.

CTF is testing the technology and plans to extend it to other BAE SYSTEMS sites worldwide as well as partner companies.

CASE STUDY UK

Turning explosives into compost

Chicken manure is used by a Royal Ordnance factory in Bishopton, Scotland, to turn waste explosives into compost. The factory makes nitro-cellulose, an explosive used as a propellant in rocket motors and car airbags. Previously, waste explosive particles from the production process were incinerated. But because of health and environmental concerns the BAE SYSTEMS Environmental Services Remediation Team developed an alternative. This involves bioremediation – the use of naturally occurring micro-organisms to break down chemicals and turn them into less harmful substances.

The waste nitrocellulose is mixed with coffee grounds and chicken manure. It is then laid out in long rows called “windrows”. The windrows are turned regularly and closely monitored. When the explosives have reduced to acceptable levels the compost is set aside to mature. Tests show it can be used to improve soil quality.