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

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

Much of the feedback on last year’s report and performance was positive, acknowledging the progress that we have made. An example is our inclusion as the first defence company in the Dow Jones Sustainability Index in 2003. We also recognise the value of those who disagree or have an alternative viewpoint.

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

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

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

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

Mike Turner
Chief Executive, BAE Systems
Our values…

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

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

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

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

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

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

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

Morley Fund Management
Objective 2004

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

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

Progress 2003 – How did we do?

We set ourselves four objectives for 2003. Here we report our progress:

1. Continue and improve communication of our CSR activities
2. Improve diversity across our operations
3. Encourage high performance
4. Establish improvement targets for safety and environment performance

Other highlights 2003:

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

Other CSR activities 2003:

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

- Achieved accreditation under the Framework for Excellence in Equality and Diversity at our Prestwick site and RO Defence Business Unit. Prestwick is the first manufacturing site in Europe to achieve silver status under this initiative. RO Defence was awarded bronze.
- A high-level review led by our Group Human Resources Director looked at implementation of our diversity policy. The management of diversity has been restructured as a result, to improve performance in our Business Units (see page 13).
- A number of achievements were recorded by our women engineers, including Grace Johnstone who was recognised as Young Woman Engineer of the Year (see page 15).
- Almost 45% of eligible senior managers participated in performance-focused training during 2003.
- Coaching is provided to address poor performance among executive employees. Terminations among this group were 3.5% in 2003, compared with 4% in 2002, and 4.5% in 2001.
Our business

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

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

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

As a defence company we have specific, additional responsibilities. We must fully understand and comply with laws and controls governing defence exports everywhere we operate, and we ensure that we comply with these regulations.

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

OEF studied the wholly owned businesses of BAE Systems and did not seek to capture the economic benefit the UK derives from Airbus UK and the economic benefit the UK derives from Airbus, 5% of all engineering apprentices in the UK. OEF found that the total value added by BAE Systems to the UK economy was worth £2,294 million. Value added reflects productivity levels and is calculated as the difference between the costs of goods and services bought in and the total pre-tax revenue generated by the company. Our total value added is equivalent to £27,000 per employee, 63% higher than the UK average.

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Engaging with our stakeholders

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

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

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

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

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

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

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

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

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

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

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

MANAGING CSR

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

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

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

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

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

Gareth Hume, by email

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

Human rights campaigner

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

Regulator (in response to questions on the responsibilities of a defence company)
Can a defence company be socially responsible?

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

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

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

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

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

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

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

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

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

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

We know this is a challenge. For example, it is difficult to increase quickly ethnicity and gender diversity in our traditionally white male-dominated sector in the UK. During 2003 we changed the way we manage diversity, making it an integral part of everyday management in our Business Units. Senior managers are supported by diversity coordinators as well as an implementation team in each Business Unit. Our Corporate Diversity Steering Group, made up of senior diversity champions from across the business, monitors implementation.

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

Our recruitment and human resources processes are designed to help ensure equality of opportunity. For example, in the US BAE Systems regularly attends and sponsors job fairs run by organisations such as the National Society of Black Engineers (NSBE). In 2003, our US businesses advertised job vacancies in six diversity-focused publications.

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

Progress in 2003:
- BAE Systems Aerostructures at Prestwick, UK became the first organisation in Europe to receive a Silver Award from the Equality Foundation. This recognises the company’s progress at implementing its equality and diversity policies. Employees and trade union representatives plan to build on this success.
- BAE Systems North America received awards from the National Society of Black Engineers, National Society of Women Engineers and the Society of Hispanic Professional Engineers in recognition of our work on diversity.

- As part of RO Defence’s Equal Opportunities strategy, managers, employees, and trade union representatives meet regularly to assess and develop diversity action plans. As a result the company has introduced equal opportunities training for all managers, diversity notice boards and an intranet site, as well as a “Springboard” programme for women leaders. The company achieved a Bronze Award from the Equality Foundation in 2003.

DIVERSITY DATA: GENDER

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<td>Total employees</td>
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<td>21,603</td>
<td>27,603</td>
<td>29,162</td>
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<td>Male</td>
<td>13,584</td>
<td>13,882</td>
<td>20,730</td>
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DIVERSITY DATA: ETHNICITY

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<tr>
<td>Other</td>
<td>652</td>
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ETHNIC MINORITIES IN THE US

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<th>Ethnicity</th>
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<tr>
<td>Caucasian</td>
<td>17,722</td>
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<tr>
<td>African American</td>
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<td>Hispanic</td>
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<tr>
<td>Middle Eastern</td>
<td>652</td>
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AGE (PERCENTAGE)

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<tr>
<td>Under 25</td>
<td>10.2%</td>
<td>10%</td>
<td>11.7%</td>
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<td>25-34</td>
<td>23.3%</td>
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<td>45-54</td>
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<td>22.3%</td>
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<tr>
<td>55+</td>
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<td>6.9%</td>
<td>5.9%</td>
<td>5.7%</td>
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</tr>
</tbody>
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Note: In 2003 we were not able to collect and report diversity data for the UK because of technical problems with the data collection systems. This has now been improved.

Employment Policy

Key elements of our policy include:

- Equal opportunities: We treat job applicants and employees in the same way, irrespective of sex, sexual orientation, marital status, age, colour, race, nationality, religion or ethnic origin.
- Disability: We recruit, employ and develop people regardless of disability on the basis of the suitability of their qualifications, skills and experience for the work.
- Intimidation: We shall develop and maintain a working environment whereby all employees have the right, and the ability, to work in an atmosphere free from intimidation of any kind and where they are treated with dignity and respect.
- Employee development: We aim to create an environment where everyone is encouraged to give their best and realise their full potential, through the provision of learning and development opportunities.

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

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

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

Whistleblowing: We provide all employees with access to an independent process whereby they may raise concerns about the operation of the business. The process is confidential and, if warranted, appropriate actions taken.

Diversity

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

Our recruitment and human resources processes are designed to help ensure equality of opportunity. For example, in the US BAE Systems regularly attends and sponsors job fairs run by organisations such as the National Society of Black Engineers (NSBE). In 2003, our US businesses advertised job vacancies in six diversity-focused publications.

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

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

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

We offer a range of training opportunities.

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

Engineering Developing You (EDY) is a portfolio of online and classroom-based training courses for our engineers, who complete a competency profile with their managers to identify the training they need. In the UK, 240 engineers took EDY courses and completed 720 training days during the second half of 2003. BAE Systems invested £180,000 in the training. Our target is for 90% of engineers in UK-based businesses to enrol on the programme by the end of 2004. Over 6,500 engineering employees (34%) have enrolled and completed competency profiles so far.

Project Management Developing You (PMDY) is a similar tool for project managers. It includes six training modules to help employees improve their capabilities and ensure we meet our commitments to customers. Over 1,900 PMDY training modules were completed in 2003. We have learning resource centres at many of our sites where employees can undertake computer-based training programmes. All of our locations in Saudi Arabia, for example, have learning centres staffed by specialists. A road show in 2003 helped raise awareness about the facilities and training opportunities available at these centres.

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

Apprenticeships

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

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

The majority of apprentices are part of a ‘modern apprenticeships’ contract between BAE Systems and the Learning and Skills Council, a UK government body. Overall, the BAE Systems programme has an 87% completion and retention rate. This is high compared to other apprenticeship programmes where average retention rates can be as low as 24%.

Our Chief Executive, Mike Turner, is part of the UK National Modern Apprenticeship Task Force.

In 2003, Naval Ships took on 112 new apprentices. This is the company’s largest ever intake and a significant increase on the 41 taken on last year. The company has received an award for Quality in Training Delivery from the Scottish Modern Apprentices scheme in recognition of its work.

Adult apprentices are also employed at Naval Ships. During 2003, some 20 steelworkers successfully completed adult apprenticeship programmes to qualify in the electrical trade. A further 135 adult apprentices are in the process of completing apprenticeships in production trades.

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

Leadership

Our leadership programme for executive employees is called Performance Centred Leadership (PCL). This helps us maximise their potential, identify high flyers early in their careers and strengthen management skills. PCL covers the five key elements of leadership: Achieving High Performance; Focusing on the Customer; Developing Others; Continuously Improving; and Working Together. Performance in each area is assessed through peer reviews and Personal Development Reviews to set salary and bonus levels and make recommendations for promotion.

Over 200 executive BAE Systems employees took part in leadership training during 2003 (almost 45% of those eligible). Coaching is provided to address poor performance among executive employees. Terminations among this group were 3.5% in 2003 compared with 4% in 2002, and 4.5% in 2001.

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

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

Disability at BAE Systems

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

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

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

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

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

Grace’s career is progressing at an impressive pace. She started at BAE Systems as a craft apprentice and rapidly moved to become a skilled flight test engineer on Eurofighter Typhoon aircrafts. She is responsible for ensuring that the aircraft electronic control systems function correctly.

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

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

Chairman’s Award for Innovation and Technology Value Team’s Mission Statement

Chaired by Peter Farnsworth and established in 2002, the Innovation and Technology Value (ITV) Team is BAE Systems’ internal innovation team. The ITV team works with all BAE Systems businesses to create and deliver innovative ideas that help the company achieve competitive advantage.

Communication & employee support

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

- Intranet sites are available to all employees and updated daily
- BAE Systems News – our company wide newsletter launched in 2003 is published six times a year.
- Regular employee opinion surveys are an important barometer of how well we manage the needs of our people. For example, in 2003, BAE Systems conducted an internal survey on work/life balance. The survey was conducted in 2003.
- Our ethics hotline is a confidential way for employees to raise concerns or report wrongdoings (see page 9).

Industrial relations

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

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

Redundancies

In 2003, we continued to restructure our business. Regrettably this led to the announcement of 3,128 job losses in the UK. We work with trade unions to minimise involuntary job losses and ensure that all restructuring and rationalisation are handled with sensitivity. Most employees who lost their jobs in 2003 left the company or changed jobs by joint management – trade union working groups focusing on particular issues such as learning and equality.

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

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

Employees enrolled on the programme take up three one-year roles in different areas of the business. This includes participating in some of our most exciting and challenging multi-national projects, such as the Eurofighter Typhoon, the Astute class submarine and the new Airbus A380. They also benefit from opportunities to network with employees from across BAE Systems.

Sixty-five employees are currently enrolled on the programme, which achieved a 92% pass rate in 2003. The FLDP has been recognised as one of the top BMA training programmes in the UK. In 2003 BAE Systems came tenth in the Times newspaper’s Top 100 Employers for Finance.

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

FINANCE LEADER DEVELOPMENT PROGRAMME

OFF-FRIDAY RULES APPLY

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

This is part of the centre’s commitment to help employees achieve a good work-life balance. EWS maintains an off-friday call centre to handle time-critical and important phone calls with an on-call person designated for every function or business area.

Pensions

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

We continue to consult with unions, pension representatives and employees on these issues.
The health and safety of our employees and the communities around our facilities is our first priority. Our employees and contractors in manufacturing are exposed to a range of safety risks, such as manual handling, working at height, noise, hand-arm vibration syndrome (HAVS) and respiratory and skin irritation. We also handle explosives and nuclear energy that pose additional risks. Many of our employees are office based. They are exposed to a different set of risks, for example from working with display screen equipment.

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

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

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

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

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We have established a corporate framework for SHE. This will help ensure our SHE policy is implemented consistently across the company and that we achieve continual improvement in health and safety performance. The framework requires each unit to establish a formal SHE management system commensurate with the level of risk in their operations. Management systems will be formally audited and findings submitted to the Executive Committee. Our work with the Health & Safety Executive (HSE) to identify and address the causes of accidents in aerospace manufacturing was completed in 2003 and a number of ‘good practice’ guides resulting from the study were drawn up. We will be working with the HSE over the next three years to conduct a detailed study of high-risk areas and will report our progress.

Progress in 2003:
- We increased protection for employees in Saudi Arabia in response to the growing terrorist threat in the country. Security was increased at all company sites, military bases where many of our employees work, and residential compounds. The latest government security briefings are circulated to employees, including via text message for employees on military bases. Families of non-Saudi employees were encouraged to relocate to their home countries at the company’s cost.
- We implemented a Safety, Health and Environment Due Diligence programme across all Business Units in Australia (see case study).
- Our Naval Ships and Submarines business introduced a new Health and Safety policy. An HSE good-practice handbook, developed in partnership with trade unions, has been issued to all employees, highlighting simple health and safety Do’s and Don’ts. A health screening programme, safety training, visual displays and a physiotherapy service for employees suffering from musculoskeletal complaints have also been introduced.

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

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

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

We implemented a Safety, Health and Environment (SHE) Due Diligence programme across all Business Units in Australia during 2003. Due diligence means taking all reasonable precautions to prevent injuries or accidents in the workplace. For example, by implementing a plan to identify possible workplace hazards and taking action to prevent accidents or injuries. More than 200 employees have been appointed and trained as SHE champions. They will ensure best practice in health and safety is implemented consistently across some 50 locations. Their role includes undertaking risk assessments, developing action plans for improvement and raising safety awareness among employees.

Health and safety information is shared information across the business.

DUE DILIGENCE, AUSTRALIA

<table>
<thead>
<tr>
<th>MAJOR ACCIDENTS</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK major accidents</td>
<td>80</td>
<td>32</td>
<td>24</td>
</tr>
<tr>
<td>US major accidents</td>
<td>6</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>US rate per 100,000</td>
<td>84</td>
<td>34</td>
<td>91</td>
</tr>
<tr>
<td>Aus. major accidents</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Aus. rate per 100,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Saudi major accidents</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Saudi rate per 100,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total major accidents</td>
<td>86</td>
<td>32</td>
<td>25</td>
</tr>
<tr>
<td>Total rate per 100,000 employees</td>
<td>60</td>
<td>25</td>
<td>26</td>
</tr>
</tbody>
</table>

*UK HSE Average 2002/3 is 195.5 per 100,000.*

**TOTAL INJURIES**

<table>
<thead>
<tr>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK total injuries</td>
<td>10,582</td>
<td>14,010</td>
</tr>
<tr>
<td>US total injuries</td>
<td>2,704</td>
<td>474</td>
</tr>
<tr>
<td>US rate per 100,000 employees</td>
<td>7.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Aus. total injuries</td>
<td>464</td>
<td>328</td>
</tr>
<tr>
<td>Aus. rate per 100,000 employees</td>
<td>1.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Saudi total injuries</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Saudi rate per 100,000 employees</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total injuries</td>
<td>11,151</td>
<td>17,755</td>
</tr>
</tbody>
</table>

*UK HSE Average 2002/3 is 1,130 per 100,000.*

**REPORTABLE ACCIDENTS**

<table>
<thead>
<tr>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK reportable accidents</td>
<td>370</td>
<td>302</td>
</tr>
<tr>
<td>US reportable accidents</td>
<td>487</td>
<td>668</td>
</tr>
<tr>
<td>US rate per 100,000 employees</td>
<td>1.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Aus. reportable accidents</td>
<td>142</td>
<td>111</td>
</tr>
<tr>
<td>Aus. rate per 100,000 employees</td>
<td>4.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Saudi reportable accidents</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Saudi rate per 100,000 employees</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total reportable accidents</td>
<td>512</td>
<td>426</td>
</tr>
<tr>
<td>Total rate per 100,000 employees</td>
<td>8</td>
<td>7</td>
</tr>
</tbody>
</table>

*UK HSE Average 2002/3 is 4.3 per 100,000.*

**NOTES**

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

MANOEUVRES AT WARTON SPRAY SHOOT UK

Our site at Warton, UK is introducing ‘man-ouequiv’ for propellant spraying aircraft. These movable platforms are used instead of fixed access staging. They help ensure a safe and less cluttered work area and can be quickly lowered in an emergency to clear exit routes.

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

Due diligence means taking all reasonable precautions to prevent injuries or accidents in the workplace. For example, by implementing a plan to identify possible workplace hazards and taking action to prevent accidents or injuries.

We implemented a Safety, Health and Environment (SHE) Due Diligence programme across all Business Units in Australia during 2003. Due diligence means taking all reasonable precautions to prevent injuries or accidents in the workplace. For example, by implementing a plan to identify possible workplace hazards and taking action to prevent accidents or injuries.
### DAYS LOST WORK-RELATED INJURIES

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK days lost work-related injuries</td>
<td>9,311</td>
<td>9,682</td>
<td>9,870</td>
</tr>
<tr>
<td>UK rate per 100,000 employees</td>
<td>21.07</td>
<td>15.13</td>
<td>13.53</td>
</tr>
<tr>
<td>US days lost work-related injuries</td>
<td>5,322</td>
<td>4,000</td>
<td>1,603</td>
</tr>
<tr>
<td>US rate per 100,000 employees</td>
<td>25.67</td>
<td>17.36</td>
<td>6.78</td>
</tr>
<tr>
<td>Aus. days lost work-related injuries</td>
<td>* 50</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Aus. rate per 100,000 employees</td>
<td>* 1.11</td>
<td>1.01</td>
<td></td>
</tr>
<tr>
<td>Saudi days lost work-related injuries</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Saudi rate per 100,000 employees</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Total days lost work-related injuries</td>
<td>14,843</td>
<td>12,080</td>
<td>8,487</td>
</tr>
<tr>
<td>Total rate per 100,000 employees</td>
<td>23.47</td>
<td>16.26</td>
<td>12.58</td>
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### REPORTABLE DISEASES

<table>
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<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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<tbody>
<tr>
<td>UK reportable diseases</td>
<td>28</td>
<td>58</td>
<td>156</td>
</tr>
<tr>
<td>UK rate per 100,000 employees</td>
<td>1.05</td>
<td>2.18</td>
<td>0.79</td>
</tr>
<tr>
<td>US reportable diseases</td>
<td>* 33</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>US rate per 100,000 employees</td>
<td>* 1.11</td>
<td>1.01</td>
<td></td>
</tr>
<tr>
<td>Saudi reportable diseases</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Saudi rate per 100,000 employees</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Total reportable diseases</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Total rate per 100,000 employees</td>
<td>107</td>
<td>138</td>
<td>243</td>
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### DAYS LOST WORK-RELATED ILLNESSES

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK days lost work-related illnesses</td>
<td>6,122</td>
<td>7,543</td>
</tr>
<tr>
<td>UK rate per 100,000 employees</td>
<td>14.77</td>
<td>17.81</td>
</tr>
<tr>
<td>US days lost work-related illnesses</td>
<td>394</td>
<td>567</td>
</tr>
<tr>
<td>US rate per 100,000 employees</td>
<td>1.39</td>
<td>2.21</td>
</tr>
<tr>
<td>Saudi days lost work-related illnesses</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Saudi rate per 100,000 employees</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Total days lost work-related illnesses</td>
<td>1,043</td>
<td>1,305</td>
</tr>
<tr>
<td>Total rate per 100,000 employees</td>
<td>23.47</td>
<td>21.45</td>
</tr>
</tbody>
</table>

### NOTE FOR ALL CHARTS

The total number of employees represented by 2003 data is 67,050. Data were reported for 65,014 employees in 2002 and 61,048 in 2001.

### US SAFETY PROGRAMME REDUCES INJURIES

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

The site’s expanded health clinic programme has reduced employee lost work time by up to three hours per visit saving the business $200,000 a year. The success of the programme was recognised by the American College of Occupational and Environmental Medicine (ACOEM) who presented IEWS with the 2003 Corporate Health Achievement Award. The success of the programme has reduced employee lost work time by up to three hours per visit saving the business $200,000 a year.

### Standards

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

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

Performance

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

We also collect data on major and reportable accidents and the total of all work-related injuries.

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

Considerable effort was made in 2003 to make our health surveillance programmes more effective. In the UK, this led to an increase in the reporting of cases of hand-arm vibration (1,261 cases reported compared with 551 in 2002), but a reduction in the instances of reportable skin problems (15 cases reported compared with 21 in 2002).

Fatalities

There were no work-related fatalities during 2003.

Nuclear safety

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

The company has a Nuclear Site Licence, issued by the UK government Health and Safety Executive and regulated by the Nuclear Installations Inspectorate. The Licence imposes stringent requirements on: the management and control of all nuclear related site operations; the provision of suitably qualified and experienced staff; the capability and structural integrity of all the facilities and supporting systems; emergency planning.

Compliance with the Licence is confirmed through regular internal and external audits. It is vital to protect people from exposure to radiation. Radiation doses received by employees or contractors on site are carefully monitored and reported annually. In 2003, a collective dose of 1.3 man mSv was recorded compared with a collective dose of 8.9 mSv in 2002. This rise is due to an increase in the number of employees engaged in radiation-related work from 59 in 2002 to 98 in 2003. The average dose per person fell from 0.151 mSv in 2002 to 0.139 mSv in 2003.

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

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

### Explosives

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

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

### Employee health and well-being

We are working closely with trade unions to improve health and safety in the workplace, one that could be an example to other employers. Des Browne, MP Minister of State for Work, UK

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

The work at BAE Systems Aerostructures demonstrates an excellent partnership approach to Health and Safety in the workplace, one that could be an example to other employers.
Community

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

**CHARITABLE DONATIONS**

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

Our corporate donations support charities working primarily in three areas — youth, armed services welfare and medical research. We support several charities through our Relationship Charities Initiative with a donation of £100,000 to each over three years. This guaranteed sum enables the organisations to plan ahead and commit to a specific project. The charities we support in this way include:

- Help the Hospices, No Way Trust (tackling crime among young people), Royal British Legion, St John Ambulance, and the Juvenile Diabetes Research Foundation (USA).

Other donations are decided by our Subscriptions and Donations Committee. Our businesses and individual sites also make donations to local charities and community initiatives.

**Employee involvement**

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

**CHARITY CHALLENGE**

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

**Activities in 2003:**

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

- Employees in Australia raised over AUS$1,500 in 2002/2003 for their charity partner, the Salvation Army. Fundraising activities included head shaves, book sales, barbecues, raffles and bad taste dress competitions. Employees gave their time to collect and deliver gifts to disadvantaged children at Christmas.

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

- Employees at BAE Systems in Johnson City and Rome, US, received the Galaxy of Stars Award for the work with the Make-A-Wish Foundation. They raised more than $40,000 in 18 months for the charity, which grants wishes for children with life-threatening diseases.

- In the UK, 80 BAE Systems employees from across the country gave up their Friday night to help out at a call centre taking calls from the public pledging money for the charity Comic Relief. Over £3,000 was raised on the night from 3,850 calls. Other initiatives included a charity challenge prize draw that raised over £38,000, thanks to generous contributions from employees and Charity Challenge teams across the UK selling thousands of tickets. The top prize, a 2002 Mini Cooper car, was donated by BAE Systems Chairman, Sir Richard Evans.

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

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

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

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

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

**UK Schools Network:** Our Schools Network covers 1,500 schools across the UK and aims to motivate students to pursue a career in engineering. Schools can access teaching materials and make contact with the company.

**MENTORING AND TUTORING PROGRAM**

Over 50 employees at EJWS in the US give their time each week to mentor local elementary and middle school students. The initiative is run by the charity Big Brothers Big Sisters. It aims to help reverse high dropout rates in schools, reduce recidivism and improve academic achievement by supporting children through regular contact with volunteers.

**Usha Shanty is a volunteer on the programme. She comments: “As a young adult, there were a lot of people in my life who could have helped me succeed. I had a mentor who was a role model. I am now that person to others. This has contributed to the good fortune I have had in my life. As a female engineer, I would also like to see more young women pursue careers in science and engineering. I hope that serving as a tutor in the community will encourage other young people to pursue their dreams.”**

**SUPPORTING SPECIAL NEEDS STUDENTS**

The Riyadh Multinational School is the first private school in Saudi Arabia for expatriate children with special needs. Paul Dugan, a BAE Systems employee, helped found the school in 1997. Since then he and his colleagues have given their time and money to help run the school and improve its facilities. The school now has 400 students with special needs. Paul Dugan was twice a recipient of the award while pursuing his own studies and comments, “I’ve worked closely with Zonta since then as I believe it’s important to give something back”.

**COMMUNITY RELATIONS**

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

**BAE SYSTEMS Corporate Social Responsibility Report 2003**

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

This is the eleventh year employees from BAE Systems have supported JDRF. They raised $41,000 by participating in the 2002 walk and through fundraising events such as a mud computer sale. The company also donated $150,000 to the charity during 2003.

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

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

**Saudi Arabia**

Alfaisal University: Alfaisal University opened in September 2003, offering courses in science, engineering and technology. BAE Systems helped found the new university, pledging funds and offering training expertise from our joint venture company, Saudi Development and Training.

Chevening Scholarships: BAE Systems supports the Chevening Scholarships, run by the British Council to give young people from over 100 countries the opportunity to 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. We also sponsor the British Council’s Post Doctoral Research Programme which gives Saudi academics grants to conduct research in British universities.

Training and skills transfer: We are helping the Saudi government develop standard qualifications and a training curriculum for technical trades to streamline training and ensure graduates emerge with the right skills. This will enable more than 40,000 young Saudis to achieve vocational qualifications and help tackle the growing problem of unemployment in the kingdom.

**COMMUNITY RELATIONS**

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

**SUPPORTING EDUCATION**

**MENTORING AND TUTORING PROGRAM**

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

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

**CITY OF PORTSMOUTH BOYS’ SCHOOL**

The City of Portsmouth Boys’ School, to help it achieve specialist status in engineering: Devonport High School, Plymouth; Broadlands School, Bristol; City of Portsmouth Boys’ School; and Westcliff High School for Girls.

**Underwater Systems**

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

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

**Australian Engineering Week**

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

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

**COMMUNITY RELATIONS**

**BAE SYSTEMS Corporate Social Responsibility Report 2003**

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

**Environment**

For example, a safety, health and environment audit plan has already been implemented with risk assessments, workplace inspections and fire risk awareness and practice training completed before manufacturing starts. The site’s activities, products and services have been planned in accordance with the ISO 14001 environmental management standard and measures introduced to reduce the use of volatile organic compounds. A touch screen computer at each workstation provides easy access to important information and will help eliminate paper use.

Manufacturing started at the site in March 2004.

Environmental management

We have an environmental policy to help us manage our environmental performance and minimise risks. This emphasises that everyone at BAE Systems — from individual employees to teams and managers — is accountable for the environmental impacts of our operations. In 2001, we set a target for all of our major manufacturing sites to be certified to the international environmental management systems standard ISO 14001. Our shipyard in Barrow, UK is the only site still to achieve this and has a target to complete certification in 2004. We monitor our performance using environmental reporting indicators that apply across the group. Improvement targets are set at site level.

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

Energy

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

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

Many of our businesses are introducing measures to reduce energy consumption. For example RO Defence invested more than £400,000 during 2003 in improvements such as the fitting of more efficient electrical equipment and meters to better monitor energy use. The business has also a significant business cost.

We calculate our VOC emissions by adding the quantities of paint, thinners, are incinerated by licensed waste disposal firms or recycled. Our overall consumption in 2003 has remained similar to that in 2002. More than 95% of our water abstraction in 2002 was used by our Kingsport site in the US. Our operations represented a similar proportion of the recycled water figure. The water use at Kingsport has decreased considerably because of differing production rates. But this decrease was cancelled out by an increase in abstraction in the UK when we began new operations on the Astute submarine at Barrow.

**Volatile Organic Compounds (VOCs)**

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

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

**Waste**

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

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

Water consumption and effluent discharge

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

**Energy**

- **Energy use (Gwh)**
  - 2001: 1,225
  - 2002: 1,094
  - 2003: 982

- **Electricity use (GWh)**
  - 2001: 1.25
  - 2002: 1.09
  - 2003: 0.98

- **Gas use (GWh)**
  - 2001: 138
  - 2002: 134
  - 2003: 130

- **Energy use (million tonnes)**
  - 2001: 145,630
  - 2002: 142,500
  - 2003: 139,290

- **Total CO2 emissions**
  - 2001: 222,704
  - 2002: 222,415
  - 2003: 222,104

**Contaminated land.**

The new Javelin Seeker manufacturing facility: a Centre of Excellence

BAE Systems is setting up a new state-of-the-art manufacturing facility for its £10 million Javelin Seeker missile contract. The site will be a Centre of Excellence within Javelin Seeker missile contract.
Compliance
As a minimum, we aim to comply with the law and all environmental regulations wherever we operate.
There were no environmental prosecutions in 2003. There were 23 reportable environmental incidents at our sites and 54 complaints from the public relating to environmental matters.

Contaminated land
Land contamination can occur when chemicals, oil or other hazardous materials leak, spill or are disposed of incorrectly. Contamination can be particularly serious when the pollution enters groundwater and is spread beyond the manufacturing site.
In 2002, we implemented a Contaminated Land Strategy to identify any areas of potential pollution throughout BAE Systems UK operations. Over 1,400 hectares of land were inspected during 2003 and management action plans have been developed for these sites. These include further investigation and water and soil sampling to monitor contamination, remediation measures or liaison with appropriate regulatory authorities. Ten of our largest sites will be inspected and assessed during 2004.
Contaminated land is usually dealt with on site closure as part of redevelopment. Contamination issues are managed by our in-house environmental consultancy, within the Shared Services Business Group.

Product Environmental Management
We aim to reduce the impact of our products on the environment where possible. Our Product Assurance Response Centre (PARC) provides information and support to enable our businesses to comply with environmental regulations and reduce environmental impacts during a product’s lifecycle from design and production to use and end of life disposal.
It operates a regularly updated website with details of regulations and best practice information on materials and processing technologies.

Contaminated land
There has introduced a closed circuit water cooling system to reuse cooling water. After the initial fill the system uses no water and none is discharged.

New ideas and technologies can help reduce the environmental impact of our products. Our Advanced Technology Centre is developing Micro ElectroMechanical Machines (MEMS) with the potential to halve aircraft fuel consumption.
Tiny air pumps, smaller than a pinhead, spray jets of air that change the airflow close to a wing’s surface. When applied at just the right location, these devices form a ‘smart skin’ around the wing, which reduces aerodynamic drag, potentially by up to 80%. This would enable huge fuel savings and reduce emissions of carbon dioxide.
BAE Systems is working with a number of European partners to develop the technology.

AUSTRALIA – REDUCING WATER CONSUMPTION
A BAE Systems site in Australia has reduced water consumption by refurbishing and upgrading its coating plant. This is saving up to 2.6 mega litres of water per year.
The coating plant uses a water cooling system to keep temperatures low. This uses 20 litres of water per hour per chamber. Previously, this water was used once, then discharged.
The site has introduced a closed circuit water cooling system that reuses cooling water. After the initial fill the system uses no water and none is discharged.

BAE Systems Environmental Services has helped create a wildlife park on a former secret weapons testing site in North Wales, UK. The company worked in partnership with the Department for Environment, Food and Rural Affairs (DEFRA) and the local community on the project.
Over 6,000 trees and shrubs were planted to create the right habitat for indigenous species such as bats, hodders, otters and newts. Two buildings were transformed into bat roosts, and a wildlife pond was created for frogs, toads and newts.
BAE Systems also helped set up a local ecological group to manage the site in the future.

CREATING A WILDLIFE PARK FROM A FORMER DEFENCE SITE

BAE SYSTEMS ADVANCED TECHNOLOGY CENTRE

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We’ve had our say – what do you think?
Tell us your views on how we deal with the issues covered in this report and any others we should be thinking about. Send us an email at csrfeedback@baesystems.com.