Some of the highlights are described here:

We published a revised Code of Conduct, which is the key guide to ethical behaviour followed by all of our employees.

Our business culture was assessed by the Ethical Leadership Group (NAVEX Global), an independent company specialising in ethical compliance. The auditors concluded that we are making good progress and that, in many ways, our ethics programme demonstrates best practice.

Our businesses devised and agreed diversity and inclusion plans.

We continued to nurture and provide opportunities for young people. For example, our UK business committed to taking over 800 apprentices in 2015, the highest intake in the Company’s history.

Many of our operating companies continued to achieve world-class levels of safety. The Group achieved an 11% reduction in the Recordable Accident Rate and the number of the most serious accidents was reduced by 32%.

We continued to focus on making our operations as energy and resource-efficient as possible. We also developed products that help our customers improve their own performance, for example, our innovative Deployed Energy Management System (DEMS) can reduce fuel use and maintenance costs by up to 30%.

A computer system that we developed played a key role in the European Space Agency’s Rosetta mission, which successfully landed an unmanned probe on the Comet 67P/Churyumov-Gerasimenko in November 2014.

The low emission units developed with Cummins, a global leader in diesel and natural gas engines, started to power a number of bus fleets in the US.

In 2014, our Community Investment programme contributed over £11 million to local, national and international charities and not-for-profit organisations.

DEMS is proven in operational tasking to save up to 30% in fuel and maintenance costs.

BAE Systems is a defence and technology business, a manufacturer, a key employer and an education and training facilitator. At the same time, our products can take 20 years to come to market and be required to operate in hostile environments for a further 20 years, if not longer. Consequently, we need to balance the need for agility and innovation with a long-term view and commitment to people and communities.

We see Corporate Responsibility (CR) as an enabler of our business. This report describes how we approach CR – to benefit our business and wider society – under the themes of ethical business conduct, investing in our people, safety, environment, product stewardship, supply chain, community and education.

This section summarises the Group’s view on CR, identifies highlights and challenges and describes the nature and scale of our business.
We recognise the growing importance of CR and view it as an important enabler of business success. Our stakeholders will have many different and legitimate views on how this success is measured. As a leading multi-national corporation, listed on the UK stock exchange, our key corporate measures relate to sustainable financial and share price performance. However, I and also my Board recognise that this must also be underpinned by an ability to attract, motivate and retain good people, instil responsible behaviour and operate a safe and secure working environment. Other important enablers include good relations with communities, suppliers, partners and customers and our ability to use resources efficiently with limited financial and environmental cost. These underpinning enablers ensure our performance is sustainable for the long term.

We set CR goals for the Group, which are enacted at a local level. These translate into safety, diversity, inclusion and environmental objectives which are linked to annual incentives for senior executives.

In this reporting year, we made progress across all of these areas, as detailed in this, our CR performance review. This documents our priorities and summarises our progress in 2014 and goals for the coming years.

In summary, the Group is well positioned to deliver shareholder value by addressing our customers’ needs in a rapidly shifting global marketplace. To achieve this we will continue to invest in key enablers for success – our people and their behaviour, safe working, community engagement, education, resource efficiency and environmental protection.

Ian King, Chief Executive

As highlighted in the BAE Systems Annual Report 2014, after reviewing the way we communicate, the decision has been made to produce a separate document, reflecting the importance of CR to the business. Consequently, as the newly elected Chair of the CR Committee, I am delighted to provide a perspective for this report.

Firstly, I would like to thank my predecessor, Paul Anderson, for ably Chairing the Committee for four years and for strengthening the system of oversight.

As Chair, I have a responsibility to assist the main Board with its approach and review performance, working closely with the Managing Director of CR. The Committee meets five times per year and we have ongoing contact with Group Directors to discuss particular matters such as ethics and HR.

In 2014, the Company revised the Code of Conduct, scheduled for roll out in the first half of 2015. We continued the drive towards world-class levels of safety, as evidenced by an 11% reduction in the Recordable Accident Rate (compared to 2013). Diversity and inclusion remained a key focus, as exemplified by our UK-wide Diversity and Inclusion Week and the ‘Do One Thing for Diversity and Inclusion’ campaign in the US. We have also seen reductions in the energy use and environmental footprints of operating sites, as well as associated efficiency measures built into products.

The Company’s ability to oversee and manage the risks associated with CR issues has been greatly improved over the past five years. Additionally, we see a growing recognition attached to the opportunities offered by innovation in the areas of energy and resource efficiency.

While the Company’s approach to CR will continue to evolve and improve, I am confident that the systems and checks are in place to ensure that sensible targets are set, performance is measured and non-conformance is acted upon.

Ian Tyler, Chairman, CR Committee
CHALLENGES

Our biggest single challenge in 2014 was the continued need to ensure that the standards and systems of ethics that we have created are reflected in the behaviour of our employees. While the Ethical Leadership Group, now called the Advisory Services Practice of NAVEX Global, and our own Pulse survey highlighted the great progress that we have made, it continues to be a CR priority into 2015 and beyond.

As part of BAE Systems’ journey to become a great workplace, employees had the opportunity once again to share their views through the 2014 Employee Pulse survey. Employees were invited to participate in the survey. As US employees completed a full survey in 2013, 20% were selected to participate in 2014.

Across BAE Systems, employers provided feedback on their pride in working for the Group and the high levels of trust present in their teams as they work to support customers. This reflects the Group’s ongoing commitment to creating environments in which employees can contribute to the success of the Group.

In 2014, our key safety metric, the Recordable Accident Rate decreased by 11%1, consistent with our target and the seventh consecutive year of improvement. Our second key safety metric, the number of major injuries, showed a decrease of 32% (a total of 44) compared to 2013.

In 2014, we employed a record number of 583 apprentices. Most of the new recruits were employed in engineering-related roles, working across our security and defence sites around the UK. Others joined supply chain partners or local engineering companies, the latter under the Government’s Employer Ownership Programme. In 2015 we expect to appoint over 800 apprentices.

In 2014, the Ethical Leadership Group (ELG), now called the Advisory Services Practice of NAVEX Global, conducted an assessment of our business conduct programme. NAVEX Global is a company that provides ethics compliance services to more than 8,000 companies across the world. The team reviewed documents, interviewed senior leaders and met with a wide range of employees to assess reactions to and compliance with our ethics programme. The team concluded that we are making good progress and that, in many ways, the programme demonstrates best practice.

NAVEX Global’s report findings focused on further embedding and maturing the Group’s business conduct programme, including recommendations for continued improvements in socialising and embedding new and existing processes consistently across the Group; ongoing assessment and improvement of the programme elements; and training for line managers and supervisors.

HIGHLIGHTS

Ethical Leadership Group assessment
In 2014, the Ethical Leadership Group (ELG), now called the Advisory Services Practice of NAVEX Global, conducted an assessment of our business conduct programme. NAVEX Global is a company that provides ethics compliance services to more than 8,000 companies across the world. The team reviewed documents, interviewed senior leaders and met with a wide range of employees to assess reactions to and compliance with our ethics programme. The team concluded that we are making good progress and that, in many ways, the programme demonstrates best practice.

Revised Code of Conduct
Our Code of Conduct defines the standards of behaviour expected from our employees. In line with our Operational Framework, the Code was updated in 2014 to ensure that it is in line with international best practice. It will be rolled out to employees during 2015.

Opportunities for young people
In 2014, we employed a record number of 583 apprentices. Most of the new recruits were employed in engineering-related roles, working across our security and defence sites around the UK. Others joined supply chain partners or local engineering companies, the latter under the Government’s Employer Ownership Programme. In 2015 we expect to appoint over 800 apprentices.

A safer place to work
During 2014, our key safety metric, the Recordable Accident Rate decreased by 11%1, consistent with our target and the seventh consecutive year of improvement. Our second key safety metric, the number of major injuries, showed a decrease of 32% (a total of 44) compared to 2013. Both metrics are used as a measure of executive performance and influence bonus levels.

Employee Pulse survey
As part of BAE Systems’ journey to become a great workplace, employees had the opportunity once again to share their views through the 2014 Employee Pulse survey. Employees were invited to participate in the survey. As US employees completed a full survey in 2013, 20% were selected to participate in 2014.

WWW.NAVEXGLOBAL.COM

At BAE Systems, we provide some of the world’s most advanced, technology-led defence, aerospace and security solutions.

We employ a skilled workforce of 83,400 people in 40 countries. Working with customers and local partners, we develop, engineer, manufacture and support products and systems to deliver military capability, protect national security and people, and keep critical information and infrastructure secure.

We have strong, established positions supplying equipment and services, including advanced electronics, for air, naval and land forces, and commercial aerospace customers. In addition, we have a growing position in the cyber domain.

What we do

A significant proportion of our sales are from international markets outside of the UK and US. In 2014, 35% of our sales came from non-UK/US customers.

BAE Systems is the third largest global defence supplier (based on 2013 revenue). We have a diverse portfolio, broadly balanced between long-term platforms programmes, electronic systems, an enduring services and support business and activities in cyber security.

### SALES BY DESTINATION (%)

<table>
<thead>
<tr>
<th>Principal markets</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>A UK</td>
<td>22</td>
</tr>
<tr>
<td>B Rest of Europe</td>
<td>13</td>
</tr>
<tr>
<td>C US/Canada</td>
<td>36</td>
</tr>
<tr>
<td>D Saudi Arabia</td>
<td>20</td>
</tr>
<tr>
<td>E Rest of Middle East</td>
<td>1</td>
</tr>
<tr>
<td>F Australia</td>
<td>9</td>
</tr>
<tr>
<td>G Rest of Asia and Pacific</td>
<td>3</td>
</tr>
<tr>
<td>H Africa and Central/ South America</td>
<td>1</td>
</tr>
</tbody>
</table>

### SALES BY ACTIVITY (%)

<table>
<thead>
<tr>
<th>Activity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A Military and technical services and support</td>
<td>45</td>
</tr>
<tr>
<td>B Cyber and intelligence</td>
<td>7</td>
</tr>
<tr>
<td>C Platforms</td>
<td>34</td>
</tr>
<tr>
<td>D Electronic systems</td>
<td>14</td>
</tr>
</tbody>
</table>

1. Including share of equity accounted investments.
2. Excludes £1.1bn (7%) of sales generated under the Typhoon workshare agreement with Eurofighter Jagdugzeug GmbH included within Rest of Europe.
Our business is enabled by our outstanding resources…

Supported by strong governance processes…

1. We understand and support our customers’ national security and other requirements.

2. We work to BAE Systems’ values (Trusted, Innovative and Bold) in all that we do.

3. We carefully assess our products and services with the objective that neither BAE Systems nor our customers are exposed to significant reputational risk.

4. We are as open as practicable about the nature of our business.

Responsible trading principles…

Focusing on the wider impacts of our business.

Safety
We continue to embed a ‘safety first’ approach by providing training and tools for employees.

We apply robust standards of product safety as it is critical that the Group’s products perform as designed.

Diversity and Inclusion
We are committed to creating an inclusive workplace where a diverse range of talented people can work together.

Environment
We focus on minimising the impact on the environment of our operations and products, and using resources more efficiently.

Community Investment
We are committed to investing in the communities in which we operate.
Our strategy sets out what we aim to achieve as a company.

Our vision is to be the premier international defence, aerospace and security company.

Our mission is to safeguard and enhance our customers’ vital interests and deliver sustainable growth in shareholder value.

Our strategy
- Maintain and grow our defence businesses
- Continue to grow our business in adjacent markets
- Develop and expand our international business
- Inspire and develop our people to drive success
- Enhance overall financial performance and competitive positions

Strategic objectives
- Continuously improve efficiency and competitiveness
- Continue to drive value from our defence platforms and services
- Accelerate the growth of our cyber, intelligence and security business
- Continue to win new international orders
- Continue to grow our electronic systems business
- Leverage our technology and engineering capabilities

Our values are Trusted, Innovative and Bold
BAE Systems' businesses are geographically and functionally diverse, encompassing a spectrum of projects from complex, large-scale manufacturing to state-of-the-art information technology services and products. Consequently, we approach CR as a business enabler, balancing the need for agility and innovation with a long term view and commitment to people, places and the environment.

This section describes CR governance, how we define what is important and how we communicate with stakeholders.
BAE Systems is an international business, operating in markets that are subject to significant shifts in political, defence and financial priorities. We also have a constant need to recruit, develop and retain highly motivated and skilled people.

In addition, our products can be of such strategic importance and complexity that they can take 20 years to develop operationally and then have a lifecycle of 20 plus years. Consequently, we analyse global market and technology trends in order to shape the business to be a leader in its field now and into the future.

**KEY MEGA TREND**

**Heightened stakeholder expectations**

The level of scrutiny of corporations has grown over the past ten years, as has the expectation attached to their standards of behaviour.

We fully accept this and have learned through our own experience to embed positive and correct behaviours through our business. Alongside this, we have also greatly improved the way we communicate internally and with external stakeholders.

**KEY MEGA TREND**

**A changing population**

Globally, the number of people aged 60 and over is expected to grow from 841 million in 2013 to more than 2 billion in 2050¹ (accounting for 21.1% of the total projected population).

This demographic shift will be marked in our key jurisdictions and will have implications for our programme of recruitment and retention. It also prompts us to maintain a focus on employment conditions and packages, as well as looking at the impact on our customers and their likely requirements.

**KEY MEGA TREND**

**Access to resources**

Volatility in energy and commodities prices, allied to a growing population, has heightened concerns about the long-term reliance on existing resources and technologies in a manufacturing context. Global water demand for manufacturing is expected to increase by 400% from 2000 to 2050², which is much larger than other sectors.

As a global manufacturer with a long-term view, we need to understand the dynamics of raw materials supply and associated environmental costs. Related to this are the geopolitical implications of resource scarcity and security, linked to changes in long-term climate patterns.

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The ever-shifting faces of geopolitics and associated security concerns have direct impacts on our business. These could have an adverse effect on existing and planned contracts, where there is, for example, national unrest or a change of government. These shifts also mean that the types of and demand patterns for our products and services can change rapidly.

The global nature of our predominantly defence-based business requires that we maintain a balanced portfolio of products, services, customers and operating territories. We monitor political developments as we have a role to play in maintaining stability and security and such changes can affect our customers and suppliers.

Cyber crime and intelligence
Connected digital technologies are transforming society and driving economic growth. More than a third of the world’s population has online access and there are more than 8 billion internet connected devices in use globally.

As more business is conducted online through more devices, the opportunities for criminal activity also grow. Research suggests that the cyber-crime costs to the UK alone could be in the order of £27 billion per year.1

We recognise the need to implement the highest levels of security against cyber-threats.

Key Mega Trend

Security and insecurity

The global nature of our predominantly defence-based business requires that we maintain a balanced portfolio of products, services, customers and operating territories. We monitor political developments as we have a role to play in maintaining stability and security and such changes can affect our customers and suppliers.

Eyes in the sky

Unmanned aerial vehicles (UAVs) are the latest generation of pilot-less aircraft, controlled from the ground in the field or from remote command centres. They are used within the military sphere for attack, reconnaissance or civil patrol missions, where the technology has been proven. As is often the case, the technology is now being applied in a rapidly growing range of non-military applications, including urban planning, agriculture, business and natural resources mapping. Market analysts predict that the commercial market for unmanned aerial systems will exceed $1.7bn by 2025, dominated by agricultural and energy applications.2

Globally, we expect UAVs to tackle many more tasks currently completed by manned aircraft. However, in whatever way this market develops, we are very clear that such systems will comply with international rules of engagement and legal norms.

£8.4bn
Predicted value of small unmanned air vehicle market2

£27bn
Suggested 2011 cyber-crime costs in the UK alone1

8bn+ internet connected devices in use globally1

Taranis, the stealthy unmanned combat vehicle demonstrator which successfully completed a second phase of flight testing in 2014, with Typhoon, the advanced multi-role/swing-role combat aircraft.

2. Lux Research, September 2014.
Importantly, we do not divorce CR metrics from our broader business goals, as we see them as an enabler, and in the case of our work in diversity and education, make us fit for the future. Our main measures are the mix of Key Performance Indicators (KPIs) that relate to our financial performance, the way we deal with our customers and execute our programmes, how we demonstrate responsible behaviour, as well as the level and quality of engagement with our employees.

The main Board of directors is supported by Board Committees. These include the CR Committee that defines our ‘responsible business’ priorities, which are trust and integrity, our employees and resource efficiency.

While targets are set at Board level, our individual business units and sites have a considerable degree of autonomy in ensuring that we work towards their achievement.

Progress made in 2014 against our responsible business priorities is described in the table below. This report provides more detail under the themes of ethical business conduct, investing in our people, safety, environment, product stewardship, supply chain, community and education. A detailed description of these themes is provided in the ‘2014 in review’ section.

### Priorities

<table>
<thead>
<tr>
<th>Trust and integrity</th>
<th>PROGRESS</th>
<th>PROPOSALS</th>
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<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2015</td>
</tr>
<tr>
<td>Developed and refreshed Code of Conduct</td>
<td>Roll-out Code of Conduct</td>
<td></td>
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<tr>
<td>Code of Conduct training</td>
<td>Implement NAVEX Global recommendations</td>
<td></td>
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<tr>
<td>Ethical Leadership Group NAVEX Global audit</td>
<td>Align business conduct programme with business processes</td>
<td></td>
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<table>
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<tr>
<th>Our employees</th>
<th>PROGRESS</th>
<th>PROPOSALS</th>
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<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2015</td>
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<tr>
<td>The Group achieved an 11% reduction in the Recordable Accident Rate¹</td>
<td>10% reduction in Recordable Accident Rate</td>
<td></td>
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<tr>
<td>Majority accidents reduced by 32%¹</td>
<td>Maintain management focus on safety risk</td>
<td></td>
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<tr>
<td>Benchmarking showed elements of world-class safety practice</td>
<td>Drive safety culture</td>
<td></td>
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<tr>
<td>Defined diversity and inclusion plans for all businesses</td>
<td>Drive diversity and inclusion agenda</td>
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<tr>
<th>Resource efficiency</th>
<th>PROGRESS</th>
<th>PROPOSALS</th>
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<tr>
<td></td>
<td>2014</td>
<td>2015</td>
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<tr>
<td>Set and met energy, water and waste targets</td>
<td>Drive improvements in materials use and resource efficiency</td>
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Our Operational Framework provides clarity on the roles and responsibilities within our organisation and, sitting alongside the Code of Conduct, guides our work and behaviour.

Ian King, Chief Executive

The Operational Framework is the first and most important part of our system of internal controls. Responsibility starts with the CEO, who works directly with the Managing Director (MD) CR to set the CR agenda. This work is also reviewed by the main Board, chiefly through the CR Committee, chaired by a non-executive director. A proportion of the remuneration packages for our Group CEO, Group Finance Director and CEO of BAE Systems Inc. (in the US) are dictated by our safety performance.

The Code of Conduct and Responsible Trading Principles are followed by employees and we encourage suppliers to embrace similar ethical standards to our own. In addition, other areas of the business are covered by policies on, for example, Fraud Prevention, Offset, Export Control, Product Safety, Health and Safety, People and Environment. The level to which our individual businesses comply with these policies and associated targets and objectives is reviewed according to a process defined in the Operational Framework.

As a global business, our detailed policies take account of the laws and standards where we operate. For example, our Operational Framework in the US is supplemented with specific requirements such as those on recruitment of ex-forces personnel and conflict minerals.
We fully accept that there is a great deal of interest in our business for many reasons and from many quarters, reflecting the nature and scale of what we do. The questions asked vary considerably and may reflect simple curiosity, concern about our industry or perhaps be technical in nature.

Answers to many of the questions asked of us can be found under FAQs in the CR section of our website.

<table>
<thead>
<tr>
<th>BAE SYSTEMS AS...</th>
<th>STAKEHOLDERS</th>
<th>THEIR INTEREST</th>
<th>FIND OUT MORE</th>
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<tr>
<td>Manufacturer</td>
<td>Employees</td>
<td>Operational safety</td>
<td>People</td>
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<td>Regulators</td>
<td>Compliance</td>
<td>Safety</td>
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<td>Customers</td>
<td>Product quality</td>
<td>Environment</td>
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<td>Employee conditions</td>
<td>Product stewardship</td>
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<td>Defence business</td>
<td>Government</td>
<td>Transparency and honesty</td>
<td>Ethics</td>
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<td>NGOs</td>
<td>Clear communication</td>
<td>Suppliers</td>
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<td>Contractual terms</td>
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<td></td>
<td>Conduct and behaviour</td>
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<tr>
<td>Employer</td>
<td>Government</td>
<td>Employee terms and conditions</td>
<td>People</td>
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<td></td>
<td>Employees</td>
<td>Recruitment and retention</td>
<td>Community</td>
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<td>Customers</td>
<td>Personal/professional development</td>
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<td></td>
<td>Regulators</td>
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<tr>
<td>Engineering/technology business</td>
<td>Education sector</td>
<td>Engagement with schools and universities</td>
<td>People</td>
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<td></td>
<td>Suppliers</td>
<td>Research base</td>
<td>Product stewardship</td>
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<td>Customers</td>
<td>Continuing Professional Development</td>
<td>Suppliers</td>
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<tr>
<td>Community partner</td>
<td>National and local government</td>
<td>Local employment</td>
<td>People</td>
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<td></td>
<td>Employees and families</td>
<td>Community investment</td>
<td>Community</td>
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<td></td>
<td>NGOs/charities</td>
<td>Long-term view</td>
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<td>International agencies</td>
<td>Market drivers and shifts</td>
<td>Our approach</td>
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<td>Governments</td>
<td>Mega trends</td>
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<td>Investors</td>
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<td>About BAE Systems</td>
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<td>Government</td>
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<td>Our approach</td>
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<td>Suppliers</td>
<td>Communication</td>
<td>Ethics</td>
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<td>Significant procurer</td>
<td>Suppliers</td>
<td>Commitment</td>
<td>Suppliers</td>
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<td>Fairness</td>
<td>Ethics</td>
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</tbody>
</table>
This section describes in some detail our approach to our seven CR priorities.
Our corporate behaviour is governed by our Operational Framework, Code of Conduct, policies and our values – to be Trusted, Innovative and Bold.

**HIGHLIGHTS**

Our employees and those associated with the business can call the Ethics Helpline or contact an Ethics Officer if they need any clarification on anything raised in the Code of Conduct or they wish to report a concern.

In 2014, the Ethical Leadership Group (NAVEX Global) conducted an assessment of our business conduct programme.

1,037 Calls to the Ethics Helpline in 2014

286 Dismissals for reasons relating to unethical behaviour in 2014

**Priorities**

**2014**

- Continue to improve and evolve the Group’s business conduct programme

**Progress**

**2014**

- Code of Conduct refresher training rolled out to employees across the Group
- Developed a refreshed Code of Conduct

**Proposals**

**2015**

- Roll out refreshed Code of Conduct

- Ethical Leadership Group (NAVEX Global) conducted external assessment of Group business conduct (see case study)

**Employee Engagement**

Employees across our sites have access to ethics representatives to get guidance and support from. Our representatives also help to ensure the Code of Conduct is implemented and employees apply ethical values in their daily tasks, both internally and externally.

Najd Al Salman, Ethics Manager – KSA

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1. See Deloitte’s unqualified assurance statement at www.baesystems.com/deloitteassurancestatement
Ethics in decision making
Our CEO is ultimately responsible for the behaviour of the Company and its employees. He in turn works with the Board and its associated CR Committee to define and implement policies, systems, management structures and sensible metrics for ethics and other aspects of CR.

The CR Committee meets quarterly, during which it reviews adherence to our Code of Conduct and ensures that the Code and associated policies reflect best practice in terms of ethics and business behaviour. The Committee works to a rolling three-year work programme and focuses on significant non-financial risks such as business conduct, health, safety and environment. The MD CR reports directly to the CEO and supports the CR Committee and the main Executive Committee in embedding and monitoring ethical behaviour against annual objectives. Performance and risk is measured and monitored via our six-monthly Operational Assurance Statement and Quarterly Business Review. The CR team, in turn, has day-to-day responsibility for the Code of Conduct and Ethics Helpline.

RESPONSIBLE TRADING PRINCIPLES
Our Responsible Trading Principles help us make informed decisions about the business opportunities we pursue and help employees apply our values in their decision-making.

1. We understand and support our customers’ national security and other requirements
   Earning the trust of our customers is critical to the success of our business. They must trust us to understand their particular circumstances and respond to their requirements including, if applicable, how we can best meet their need to deliver national security.

2. We work to BAE Systems’ Values in all that we do
   Together with our Code of Conduct, our Values guide employees in their business decisions:
   - **Trusted**: We deliver on our commitments. We must be honest and take responsibility so that we can be relied upon. In our organisation, everyone’s contribution matters.
   - **Innovative**: We create leading-edge solutions by valuing the imagination and experience within our organisation. We empower teams and work together to turn our ideas and technologies into solutions.
   - **Bold**: We constructively challenge and take the initiative, operating with tenacity and resolve. We accept challenges and manage risk and set ourselves stretching goals.

3. We assess carefully our products and services with the objective that neither BAE Systems nor our customers are exposed to significant reputational risk
   The Product Trading Policy and accompanying guidance sets out how we identify, evaluate and manage potential reputational risks associated with the sale of products and services. Line leaders use the principles set out in the policy to determine the appropriate depth of evaluations in different situations.

4. We are as open as practicable about the nature of our business
   Being transparent about what we do and how we do it helps us build trust among our stakeholders. We aim to communicate openly and transparently with stakeholders on our business activities. In some cases, we are limited in how much we can say by, for example, confidentiality agreements with customers. If we are unable to provide information where it might normally be expected then we aim to explain why.

When considering new business and export opportunities, employees involved in business development apply our Responsible Trading Principles, our Product Trading Policy and, where relevant, policies on other issues such as pursuit of export opportunities, facilitation payments, use of advisers, gifts and hospitality. This approach ensures that ethics is core to the decision making process and helps the Company make informed decisions about the business opportunities that we pursue.

Deborah Allen, MD Corporate Responsibility
Product Trading Policy
Our Product Trading Policy is designed to help employees identify and address any responsible trading risks. It is applied to the development, production, sale, transfer, or disposal of any product or service. It takes into account risks associated with the product and its intended end use, the country of origin and delivery, and the customer.

It requires employees to consider factors such as:
- Does the product fulfil its intended purpose and match the customer’s stated requirement?
- Does the product conform to our product safety policy?
- Is the product able to distinguish planned from unintended targets?
- Is it proportionate to the role and necessary for its intended purpose?
- Can it reasonably be anticipated that the product will be controlled or prohibited in the foreseeable future?
- Is the product an entirely new class of weapon or capability?
- Is there a significant, specific and foreseeable risk of the product being diverted or transferred to an unapproved user or utilised for an unauthorised purpose?
- Does the product create a significant lasting adverse environmental or health impact over and above that reasonably necessary in its manufacture, storage, deployment, use or disposal?
- Can the product’s end use reasonably be expected to violate civil liberties or human rights?

Contracts identified as posing a responsible trading risk must be approved at a more senior level of the company, up to and including the Chief Executive, and will be managed through our Lifecycle Management Framework, which includes regular management review.

Export sales must also comply with our Pursuit of Export Opportunities Policy. We categorise existing and potential markets according to their commercial importance and whether they could pose a reputational risk to our business. Risks considered include corruption and human rights risks, and the risk of product diversion (when a product is sold on or when a dual use product is converted from civilian to military use). Sales that could pose a responsible trading risk must be reviewed/approved by senior management.
Supporting employees

Our employees and those associated with the business can call the Ethics Helpline or contact an Ethics Officer confidentially if they need any clarification on anything raised in the Code of Conduct or they wish to report a concern.

The helpline is managed by a third party, is multi-lingual and available 24/7 via a freephone number from most of our operational territories and via email. During 2014, 1,037 enquiries were reported to Ethics Officers and through the Ethics Helpline.

ENQUIRIES TO THE ETHICS HELPLINE

<table>
<thead>
<tr>
<th>Year</th>
<th>Enquiries</th>
</tr>
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<tbody>
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<tr>
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</tr>
<tr>
<td>2010</td>
<td>734</td>
</tr>
</tbody>
</table>

1. See Deloitte’s unqualified assurance statement at www.baesystems.com/deloitteassurancestatement
Our Lobbying and Political Support Policy sets out key principles that must be adhered to by anyone engaged in such activity on behalf of the Group. These state that:

- BAE Systems engages in lobbying activities in its countries of operation with the aim of communicating with and informing legislators and government decision-makers on matters relating to the Company’s business.
- Anyone lobbying on behalf of BAE Systems conforms with the Company’s standards of responsible business conduct.
- BAE Systems does not make corporate contributions or donations to political parties.

Industrial participation

Industrial participation, or offset, is governed by our Offset Policy. The principles underlying the policy are as follows:

- All offset activity operates in accordance with the Code of Conduct.
- There is clear line management ownership and executive oversight of all offset activity.
- We are consistent with our customers’ offset policies and are proportionate to the value of related contracts.
- Financial and non-financial risks are clearly assessed and mitigated.

Taxation

Our Group Tax Policy is to:

- Ensure compliance with all applicable tax laws and regulations.
- Manage the Group’s tax expense in a way that is consistent with its values and its legal obligations in all relevant jurisdictions.
- We seek to build constructive working relationships with tax authorities, following a policy of open disclosure in order to achieve early agreement and certainty in relation to its tax affairs.
- Whilst the Group aims to maximise the tax efficiency of its business transactions, it does not use structures in its tax planning that are against the spirit of the law and actively considers the implications of any planning for the Group’s wider corporate reputation.
- Arm’s length principles are applied in the pricing of all intra-group transactions of goods and services in accordance with Organisation for Economic Co-operation and Development guidelines.

Where appropriate, the Group engages with governments to help shape proposed legislation and tax policy. The Group endorses the statement of tax principles issued by the Confederation of British Industry in May 2013 (www.cbi.org.uk/media/2051390.statement_of_principles.pdf).

BAE Systems operates internationally and is subject to tax in many different jurisdictions. The Group employs professional tax managers and takes appropriate advice from reputable professional firms. The Group is routinely subject to tax audits and reviews which can take a considerable period of time to conclude. Provision is made for known issues based on interpretation of country-specific legislation and the likely outcome of negotiations or litigation. The assessment and management of tax risks are regularly reviewed by the Group’s Audit Committee.

Advisers

All adviser appointments must be proposed and approved in accordance with our standard procedures and be authorised by an external panel.

Human rights

We are committed to respecting human rights in our operations, within our sphere of influence.

In 2014, the Ethical Leadership Group, now called the Advisory Services Practice of NAVEX Global, conducted an assessment of our business conduct programme.

NAVEX Global is a company that provides ethics compliance services to more than 8,000 companies across the world. The NAVEX Global team reviewed documents, interviewed senior leaders and met with a wide range of employees to assess reactions to and compliance with our ethics programme.

The team concluded that we are making good progress and that, in many ways, the programme demonstrates best practice. Specific recommendations focused on further embedding and improving the Group’s business conduct programme, including training for line managers and supervisors.

If an employee is in breach of the Group’s Code of Conduct or other relevant standards, appropriate action is taken, including dismissal.

### DISMISSEALS DUE TO UNETHICAL BEHAVIOUR

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
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<tbody>
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<tr>
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<td>2012</td>
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<td>2011</td>
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</tr>
<tr>
<td>2010</td>
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</tr>
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1. See Deloitte’s unqualified assurance statement at www.baesystems.com/deloitteassurancestatement
**INVESTING IN OUR PEOPLE**

**HIGHLIGHTS**

Leadership development – our ‘Leading for Total Performance’ programme is designed to equip our current and future leaders to deal with a rapidly changing business and market environment.

In 2013, The Executive Committee set out a three-year plan to increase the number of women in senior executive positions.

As one of the UK’s largest employers of skilled engineers, we are committed to encouraging young people to take a greater interest in science, technology, engineering and mathematics (STEM) subjects.

---

Our business operates and grows thanks to the skills and technical know-how of motivated employees.

**PRIORITIES**

**2014**

- Increase diversity and inclusion within the organisation in accordance with business goals

- Diversity and inclusion plans to be aligned with business plans and KPIs identified for monitoring and tracking against plans

**PROGRESS**

**2014**

All businesses set diversity and inclusion plans to address specific issues or strategic aims. These were supported at Group level by the Senior Women Mentoring Programme and extensive involvement in both national and regional education schemes to encourage more students from different backgrounds, at all stages, into science and engineering.

**PROPOSALS**

**2015**

All businesses to continue to drive a diversity and inclusion agenda to address business needs and strategic aims.

---

**800+**

Over 800 apprentices taken on by our UK business in 2015

**£79M**

Annual investment in its Skills 2020 strategy to address existing and future workforce issues

---

Increasing competition for people with the right skills and experience makes our investments in people and expanding our talent pool even more of a priority. A key part of this is encouraging more women to consider careers in traditionally male-dominated manufacturing and engineering roles.

**Martin Bartlett**, Head of Engineering

– Land and Integrated Systems, Australia
Leadership development

Our ‘Leading for Total Performance’ programme is designed to equip our current and future leaders to deal with a rapidly changing business and market environment.

Engagement

Engaging our employees to help them make the fullest contribution to the business is important. Through a variety of media, we seek to listen to employees’ views and opinions, and keep them informed about developments and prospects for the business. Regular internal communications, including e-enabled channels, leadership blogs, newsletters, management and team meetings, monthly team briefs and the intranet, keeps employees informed, involved and engaged.

Education

Our businesses need employees with specialist skills which, in turn, means that we have strong relationships with education providers in our key jurisdictions. This ranges from working with schools to promote science and engineering, through partnering with trade associations on education initiatives, providing our own training programmes and our ongoing commitment to skills development for all of our employees.

Diversity and inclusion

Achieving a goal of building a diverse workforce which respects the cultural and regulatory profile of the countries in which our Group companies operate. For example, we have a strong focus on increasing the proportion of women in senior roles by fostering a culture of inclusion through unconscious bias training, mentoring women employees, increasing the diversity of our leadership teams and measuring our performance.

Reporting to the CEO through the Executive Committee, our Group HR Director provides and oversees the HR strategy and framework. The HR Director works through a core team and HR heads in all of our Group companies. They feed into strategy and objectives setting via a HR Council and ensure that detailed policies relating to our employees are adequate, relevant and support the Integrated Business Plan.

The strategy in relation to our people is focused on developing their capabilities throughout their career with us. This entails a high level of engagement on the part of the Company and the employee, but with the aim of helping the individual fulfil their potential while contributing to the success of the business.

“We spent approximately nine months on the programme participating in a series of modules that cover key areas of the business such as strategy, change management and leadership development. Each module lasted for about five days and included talks from senior Company executives and interactive sessions with thought leaders in each area.

We were also assigned a project chosen by senior management and addressing specific challenges facing the business. My team – including colleagues from the US, UK and India – were asked to develop recommendations to grow our business in Saudi Arabia. We presented our findings to the BAE Systems Executive Committee in London.

Mentoring came from personal executive coaches who assessed our progress against previously agreed goals. They also provided support and guidance to help us identify future learning opportunities.

Having previously served in the army for over 20 years, my journey so far at BAE Systems has been a real voyage of discovery – personally, professionally and culturally. Working with people from such a range of different backgrounds, cultures and locations poses a unique set of challenges and overcoming these is part of the training.”

Amitabh Bhagat, Head of Business Development – Land, BAE Systems India
INVESTING IN OUR PEOPLE CONTINUED

Women in our workforce
In 2013, The Executive Committee set out a three-year plan to increase the number of women in senior executive positions.

2015 progress:
Fostering a culture of inclusion through unconscious bias training for all employees.

Accelerating the development of high-potential women. A mentoring programme, launched in 2012, supported 46 candidates in two cohorts. Approximately 90% of the first and 50% of the second cohort have been promoted or progressed to new roles.

Monitoring to maintain a focus on gender diversity across all parts of the business and within executive and leadership roles.

Increasing leadership diversity by ensuring that candidate lists were as diverse as possible and executive search firms were aware of our aims. In 2014, 20% of candidates hired into leadership roles were women (from outside the Company).

Our annual Management Resource Review, which includes Group level succession and development planning, showed that in 2014 22% of high-potential employees were women.

Gender diversity
While promoting gender equality within the Group, we also work and contribute to other organisations with the same diversity agenda. These include International Women of Excellence (IWE), where we sit on the advisory board and have access to personal development opportunities for our employees. In Australia, we support Women on Boards (WOB) – a national organisation that aims to improve gender balance in the workplace and in the US, BAE Systems is a member of the Society for Women Engineers.

Wider diversity and equality
The LGBT Awareness Network within our Military Air & Information division helps employees feel included and valued. It provides information, advice and support and raises awareness of issues affecting LGBT employees in the workplace, through an open and supportive environment.

EQUALITY IN THE UK
We were named in The Times Top 50 Employers for Women 2015, which lists the organisations that are leading on workplace gender equality in the UK. The unranked alphabetical list is published in partnership with Opportunity Now, the workplace gender campaign from Business in the Community.

Business in the Community applauded us for recognising that putting inclusive behaviours at the core of what we do, and making gender equality a business priority, not only benefits the women we employ, but also the organisation as a whole and the clients, customers and communities we serve.

In a further act of recognition, on 21 April Opportunity Now hosted its 20th annual Excellence in Practice Awards at an event attended by more than 500 business leaders. We took home the Agile Workplace Award in recognition of the successful flexible working approach recently introduced in Naval Ships.

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wALKING WITH PRIDE
As a business, we are proud to celebrate diversity throughout our workforce, our customers and suppliers. In 2014, BAE Systems, Inc. employees marched in the D.C. Capital Pride parade. 25 of our employees from eight of our US sites, along with family members, celebrated equality for Lesbian, Gay, Bisexual, Transgender and Questioning (LGBTQ) individuals.

More than 15,000 spectators turned out to watch the parade through the centre of Washington, D.C. In recognition of LGBT Pride month, employees were encouraged to sign up to be an ‘Ally’, or become a member of the LGBTQA Employee Resource Group called Outlink.

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INVESTING IN OUR PEOPLE

ACCELERATING SKILLS DEVELOPMENT

Our Accelerated Development Programme operates on a two-year cycle for any employees with high-potential, energy and career focus. Working through on-the-job experience, employees on the programme gain access to mentoring by senior leaders and members of the Management Board, opportunities to lead challenging business projects and a tailored development plan.

A key component is a mentoring scheme, which each year involves more than 100 students allied to more than 200 STEM ambassadors drawn from all areas of the business. Over a ten-week period, the ambassadors work with schools in Glasgow and Portsmouth, culminating in a test and experience day.

Encouraging young people

As one of the UK’s largest employers of skilled engineers, we are committed to encouraging young people to take a greater interest in science, technology, engineering and mathematics (STEM) subjects.

Our Naval Ships business is particularly active and offers a range of tailored programmes for school and university subjects, focusing on inspiring the next generation of engineers. This includes the Schools Engineering Challenge, in which students design and build model boats.

The first assignment for Project Engineer and new ambassador, Danielle Donnachie, was to attend a ‘Girls into Physics’ event at a Scottish school in January. Danielle said: “I always knew I wanted to be an electrician but I was told I probably wouldn’t be able to because I was a girl. This just spurred me on to achieve my dreams, and I left school to do an apprenticeship with BAE Systems. While I was able to fight the stereotype, and didn’t listen to people telling me I couldn’t do it, there are a lot of girls out there who might need a bit more encouragement.”

As a council member of the Institute of Engineers and Shipbuilders in Scotland, Engineering Manager, Robert Harley, is passionate about supporting future technical talent. He said: “We need that pipeline of motivated and adept individuals. Engaging young people through STEM-related education and outreach programmes is vital to the future of our business.”

Our apprentices tell their stories about how their passion and potential were inspired from their very first day with us.

WE NEED THAT PIPELINE OF MOTIVATED AND ADEPT INDIVIDUALS

The employer-led Movement to Work scheme aims to help long-term unemployed young people into the jobs market. Started by the UK Government and the Prince’s Trust, the scheme allows young people to complete a four-week training programme, including a two-week work placement.

Two of our businesses, Shared Services and Submarines, have offered work experience placements to 11 young people through the scheme. In total the Group offered 100 places across our UK sites in 2014 with a further 100 in 2015.

Katy Evans worked in the Finance Services Team at Preston: “Getting work experience in a busy, complex environment is invaluable when you are seeking your first job, which is surprisingly hard to find.”

Jonathan Hughes had previously applied for an apprenticeship but failed at the interview stage because he was not able to talk about other experience. “We were given a job, taught how to do it then left to get on with it – like you would in the workplace. This has definitely helped me. I’ve logged everything I’ve done and have a better understanding of the business now, so I feel optimistic.”

100+ students allied to more than 200 STEM ambassadors
Giving talented youth an opportunity

In 2014, nine young people have been offered apprenticeships with our Submarines business in the UK, following a successful four-week programme under the Movement to Work scheme. This UK-wide scheme provides a pathway into work for 16–24 year olds currently not in training or employment. 11 participants experienced work across the business, including production, logistics, business administration, fabrication and welding.

Ted Creighton, Head of Learning and Development, said: “All of the young people impressed us with their positive attitude and greatly benefited from learning skills and practices you’d only get in the working environment. We look forward to welcoming those selected and hope that the others will have the confidence to apply to us in the near future or secure employment or training elsewhere.”

Cue Skills 2020

Cue Skills 2020 is an integrated skills and education strategy that touches every part of BAE Systems. It is designed to ensure the Company has the right skills to remain competitive and operate successfully beyond 2020.

The strategy was launched following a review by the Institute of Manufacturing at Cambridge University, which identified the key skills and challenges that BAE Systems and its peer group will need and face in the near future.

As well as focusing on education and apprenticeships, Cue Skills 2020 defines how our entire workforce is continually developed through multi-skilling, re-skilling and up-skilling.

Nigel Whitehead, Group Managing Director Programmes & Support, said: “People are our best asset, which means that we have to actively seek out and build on talent, develop it to its full potential and put it to good use. Working together, industry, academia and government can help to build on this country’s existing skills and economic position, and ensure that it maintains its established position at the forefront of worldwide innovation and engineering excellence.”

TED CREIGHTON, Head of Learning and Development
Our business in Australia has backed the ‘R U OK?’ Day, promoting awareness of mental health issues in the workplace. The scheme encourages employees to check if work mates, friends and family ‘R U OK?’ throughout the year. Our business leaders are encouraged to promote awareness of mental health initiatives in the workplace.

Our Facebook page is a place for employees, partners, customers and others in the field to participate in a dialogue and keep up to date on what is happening throughout the business.

Our UK business will be taking on over 800 apprentices in 2015, the highest intake in the Company’s history. Of the new intake, 45 individuals will join supply chain partners or local engineering companies, the latter under the government’s Employer Ownership Programme.

Two-thirds of the new recruits will be employed in engineering-related roles, working across 14 of our security and defence sites around the UK.

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Employee communication

Our annual employee Pulse survey is a key part of our engagement process, built around the aim of making BAE Systems a great place to work. Every employee has the opportunity to provide feedback on their experiences and views about the Company.

The results are then reported back, discussed at team meetings and employee responses encapsulated in illustrations, videos, the BAE Systems podcast, employee listening sessions and roadshows. The latest survey was conducted in September 2014 and was designed with input from employees from Australia, Saudi Arabia, the UK and the US.

Dominic DiBiase, Pulse survey lead, reflects on the process: “Pulse is an enabler – a means to an end – rather than an end in itself. We invest a great deal of time in making the survey relevant with a view to providing our local managers with insights and outputs that they can apply in order to address real issues.”

---

800+ apprentices taken on by our UK business in 2015

17% of this uptake was female

R U OK?

PULSE IS AN ENABLER – A MEANS TO AN END – RATHER THAN AN END IN ITSELF.

Dominic DiBiase, Pulse survey lead
Our business operations never stand still. And neither do our safety risks. We’re constantly reviewing our operations in order to find new technologies, new ideas and alternative ways of reducing our risks and improving our safety standards.

Danny Martland, Director SHE MAI; P&S SHE Lead, Safety, Health & Environment

We manage a wide range of safety risks in many varied and sometimes hazardous environments. Our goal is to ensure that all employees think ‘safety first’.

<table>
<thead>
<tr>
<th>PRIORITIES</th>
<th>PROGRESS</th>
<th>PROPOSALS</th>
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<tbody>
<tr>
<td>2014</td>
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<tr>
<td>Continue the drive towards a world-class level of safety.</td>
<td>11% The Group achieved an 11% reduction in the Recordable Accident Rate.</td>
<td>Continue the drive towards a world-class level of safety performance.</td>
</tr>
<tr>
<td></td>
<td>32% The number of major (most serious) accidents was reduced by 32% to 44.</td>
<td></td>
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</tbody>
</table>

Benchmark ourselves against leading companies to identify key areas for improvement and focus.

Compared to other leading companies, some of our businesses are achieving a world-class level of safety management.

Maintain focus, management and reduction of significant safety risk.

Continue to drive a strong safety culture through communication, awareness and visible leadership.

Our Safety Maturity Matrix (SMM) sets five levels of competence and attainment from minimal compliance and ‘reactive’ behaviour through to proactive and best-in-class.

Our senior executives have safety targets that are linked to their annual incentive allocation.

Management approach

Our Safety Steering Group is chaired by the Managing Director, Corporate Responsibility and comprises senior leaders from each of our operational markets and senior SHE personnel. The group’s role is to ensure that we achieve our goal of achieving a level of safety performance comparable with the best performing companies worldwide.

All sites are required to comply with our SHE Policy, which addresses risks, compliance, monitoring, scope, design and products, best practice and resourcing. In order to implement the policy, we operate safety management systems across the Group, which include risk registers and define the roles and responsibilities of employees in identifying and managing safety performance.

The latter is measured using the number of recordable accidents per 100,000 employees. This, in turn, is benchmarked against the same metrics for companies with leading safety records.

WAVE GOODBYE TO UNSAFE WORKING PRACTICE

Slips and trips are the most common cause of accidents across our Maritime businesses. Consequently, throughout 2013 and into 2014, our continuous improvement programme focused on such incidents, resulting in significant decreases in recordable accidents by 62% over a 12-month period.

These reductions rely on a culture that prioritises safety first and associated behaviour such as reporting hazards and unsafe actions. This is exemplified by our ‘red card’ system. Under this scheme, a team that identifies a safety hazard which could cause serious injury and cannot be resolved there and then, can issue a red card and stop work until the issue is resolved.

When safety surfaces

The structures team in Portsmouth, working on the new Queen Elizabeth carrier, raised the red card. Their leader, Maurice Payne, said, “The guys were concerned about working at the aft end of the carrier. Two stairways had been dismantled to make way for a unit, but they had not been reinstated, therefore access was a challenge. My team were concerned that in the event of a fire, it would take too long to escape, therefore a red card should be issued. While reluctant to escalate the situation, I and the team believed that this was the right thing to do. This was the second red card that we had issued and in both cases, the response required co-operation between different departments in order to solve the problems.”

The vehicle and fork lift movements, manual handling and warehousing associated with Submarines’ logistics operations can be high risk from a safety perspective. Consequently, Senior Operations Manager, Iain Davies, works on the basis that ‘the worst will happen’. He said: “We work to ensure that everyone knows that there are risks attached to what they do and that they understand the nature and cause of the risks.” This approach means that the Logistics operation is setting the benchmark for safety and leading on a new approach that we call the ‘leading indicator scorecard’. This provides a safety checklist for all area and line managers as well as individual employees, designed to maintain best practice and governance.

The checklist covers local risk registers, accident investigations and planned inspections. Within logistics, a key focus is the control of substances hazardous to health (COSHH) assessments. The team has developed a central information source with all relevant COSHH information and each team leader has performance targets related to assessments. Iain Davies has also focused on the reporting of safety issues: “I want to see more near miss reports because it helps to raise the profile of safety, through identification of the risks and recognition for those that highlight potential issues.”

Radway Green, the Group’s centre of excellence for the design, manufacture, proofing and supply of small arms ammunition at the Munitions business in the UK, has won a prestigious Royal Society for the Prevention of Accidents (RoSPA) Gold Medal for reducing injuries and its commitment to continuous improvement in accident and ill-health prevention at work. The medal is awarded once a company has received five consecutive Gold awards in RoSPA’s annual Occupational Health and Safety Awards.

Other Munitions sites, Bishopton Environmental Test Facility, Ridsdale Range and Washington, each received an individual 2014 RoSPA Gold award.
Safety Maturity Matrix (SMM)

Our SMM sets five levels of attainment from minimal compliance and ‘reactive’ behaviour through to proactive and best-in-class.

Each of our sites completes an SMM assessment to gauge its position. This, in turn, is reviewed by teams from other sites and through a series of senior management process audits. As well as verifying performance, the assessments help to share best practice and experiences from across the Company.
Ensuring ‘safety first’

Employees, at all levels of the business, understand that they are responsible for their own safety and that of colleagues and contractors. Our senior managers and employees in some of our businesses have safety targets that are linked to their annual incentive allocation.

To bring this behaviour to life, we use a wide range of ‘scenarios’ in our safety training programmes. We also encourage discussion and sharing of best practice, as exemplified by the BAE Systems Saudi Arabia Tool Box Talks.

‘Safety Passports’ are issued to our Naval Ships employees, indicating a required level of awareness and competence. Similarly, our Submarines business employs ‘Skill Licenses’ to those that have completed trade-based learning, for example relating to crane, lifting and slinging operations.

Communication is also vital, as exemplified by the ‘red card’ system (see ‘Wave goodbye to unsafe working practice’). This goes hand in hand with recognition of good practice, consequently safety initiatives always feature strongly in our Group-wide Chairman’s Awards.

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Small but perfectly safe

Our Small Boat Centre of Excellence (SBCE) has dramatically improved its safety, health and environment (SHE) performance since becoming part of Portsmouth Naval Base (PNB) in 2009. SBCE consists of a small boat workshop that manufactures and repairs a wide range of craft and prepares them for sea trials. It’s a very busy facility, where space is at a premium, and activities include cutting and grinding and working at height, all of which have a high safety risk.

With the support of the corporate SHE team, trade unions and local managers, a plan was devised to instil much greater awareness and a safety first culture. While improvements were initially gradual, an incident in 2013, involving a chemical splash, accelerated the process. As a result, the team brought in Ken Woodward, who lost his eyesight in a similar chemical incident, when working in another industry, since then he has travelled the world telling his story in order to encourage a proactive and positive safety culture.

After his briefing, further procedural changes were made and as a result we have seen further significant improvements and no recordable accidents in SBCE in 2014.

Paul Godsell, Head of the Ship Delivery Team, said: “While we can review and absorb theoretical best practice, there is no substitute for learning from people about their own experiences and how they, in the light of an accident, see how safety improvements can be made. Ken Woodward reminded us why we must work safely.”

Paul Berry, Production Manager, said: “Speaking to a family member of an injured work colleague is a sobering experience, therefore I am really proud of and grateful to the SBCE team for pulling together to dramatically improve SHE performance.”

While we can review and absorb theoretical best practice, there is no substitute for learning from people about their own experiences.

Paul Godsell, Head of the Ship Delivery Team

Ben Gordon, SHE Award Winner 2014. Portsmouth-based apprentice from BAE Systems has won a national award for his commitment to health and safety.
Reducing the environmental impact and enhancing the resource efficiency of our operations, our products, our suppliers and our customers makes good business sense.

**PRIORITIES**

**2014**

Set environmental improvement targets to include energy, water and waste.

**PROGRESS**

**2014**

All businesses set and met improvement targets for energy, water and waste, except where additional work opportunities and extremes of climate impacted.

**PROPOSALS**

**2015**

All businesses to continue to drive improvements in management of materials and resources.

**GREENHOUSE GAS EMISSIONS DATA**

For the period 1 November to 31 October

<table>
<thead>
<tr>
<th>Activity</th>
<th>2013</th>
<th>2014</th>
</tr>
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<tbody>
<tr>
<td>Combustion of fuel within BAE Systems facilities and vehicles (Scope 1)</td>
<td></td>
<td>585,233</td>
</tr>
<tr>
<td></td>
<td>590,451</td>
<td></td>
</tr>
<tr>
<td>Electricity and steam purchased for BAE Systems use (Scope 2)</td>
<td></td>
<td>594,866</td>
</tr>
<tr>
<td></td>
<td>630,522</td>
<td></td>
</tr>
<tr>
<td>Business travel in non-BAE Systems vehicles (Scope 3)</td>
<td></td>
<td>156,652</td>
</tr>
<tr>
<td></td>
<td>172,673</td>
<td></td>
</tr>
</tbody>
</table>

1. Excluding share of equity accounted investments.
3. Our published 2013 greenhouse gas emissions have been re-calculated as the conversion factors used in the calculations have changed.
Management approach

Management systems

Each of our businesses operates an environmental management system. While the significant impacts vary, depending on the nature of the business, they address issues such as material and solvent use, waste and recycling, air emissions, energy and greenhouse gases.

Governance

Dedicated teams from across our business define and oversee management and performance of environment. They take guidance from the Executive Committee which has approved environmental objectives and the launch of the Environmental Sustainability Maturity Matrix.

Progress against these targets is reported to senior management through quarterly business reviews.

AN ENERGISED BUSINESS

When looking at our business operations and our product lifecycles, the energy requirement is a key consideration. This is crucial to our operations as energy security and costs are key variables when running a significant manufacturing business.

The energy required to operate our products in the field, particularly in remote and hazardous environments, is also a crucial determinant of their utility. Taken together, it means that we are constantly looking at energy generation and efficiency technologies, security of supply and associated running costs.

\[ \downarrow 30\% \text{ reduction in fuel and maintenance costs} \]

Given the variety of processes that we run and the range of products that we make, our approach to energy is multi-faceted, applying a range of technology solutions and requiring significant innovation.

This is exemplified by our Deployed Energy Management System (DEMS), an innovative plug-and-go solution that controls generation and intelligently manages demand – reducing fuel and maintenance costs by up to 30%.

It can readily integrate existing equipment, accommodating commercial generators and future technologies such as solar and wind. It will also work in small bases or larger operations. For example, our off-grid radar test site at Bradwell, UK, uses a DEMS linked to solar panels to reduce the generator fuel requirement.

THE POWER TO SAVE

An average computer may be on for 24 hours but only used for a third of that time. This is wasteful and inefficient, therefore our US business is deploying a system that controls power settings on desktop computers. This will place the computer into sleep mode when it has not been used for two hours during the working day and after 30 minutes at night. The system parameters can be set by our employees to suit their working patterns, for example, if they must run a process when away from their desk.

We estimate that this will save about $30 per year per computer, resulting in a significant cost and energy saving across the business.

EXTERNAL PARTNERSHIPS

We work with a range of external partners to learn about best practice and improve environmental performance within our business and the wider defence industry.

BAE Systems is a member of the Ministry of Defence/Industry Sustainable Procurement Working Group.

BAE Systems is a member of ADS Group, the premier trade organisation advancing the UK Aerospace, Defence, Security and Space industries. We participate in its working groups to help the industry prepare for and respond to legislation on hazardous materials and environmental design.

We work with the Institute of Environmental Management and Assessment (IEMA) as part of an industry-wide working group to develop professional environmental competencies.
Resource efficiency in action

A measure of business effectiveness that is growing in importance and prominence is that of “resource efficiency” – maximising the use of raw materials, reducing waste and reusing/recycling by-products. Our Williamstown shipbuilding site in Australia symbolises our approach to resource efficiency. Here, the pipe shop was identified as out of date and inefficient, which is crucial, given that it handles the second largest volume of work in the yard. Consequently, our Business Improvement specialists worked with the local team to develop a productivity plan through the BAE Systems Idea for Action Programme.

The resulting improvements were based on LEAN manufacturing principles, focusing on work flow and cutting down on waste, handling time and associated costs. Consequently, the pipe shop reduced fabrication hours per spool by 47% and reduced man hours by 62%. Having invested AUS$150k the project resulted in savings of AUS$380k in the first few months after completion.

Our Samlesbury site in the UK is installing an array of 8,800 solar panels which will provide nearly 20% of the site’s peak electrical load. The panels will occupy over 13 acres of brownfield land, which is currently not used for any commercial purposes and will reduce carbon emissions over a 20-year period by around 30,000 tonnes (CO₂e).

The array will also help significantly reduce the energy costs for the site and free up capacity on the national grid for potential use by any developments on the Lancashire Enterprise Zone also located at Samlesbury.

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The array will also help significantly reduce the energy costs for the site and free up capacity on the national grid for potential use by any developments on the Lancashire Enterprise Zone also located at Samlesbury.
The Environmental Sustainability Maturity Matrix is a roadmap for improvement in environmental performance. Each business has conducted a self-assessment against the matrix and set targets for operations, products and suppliers. These targets are set for:

**Energy efficiency** – including non-renewable energy sources used in the infrastructure and processes at our sites, e.g. electricity, gas, coal and fuel oil

**Waste reduction** – including hazardous and non-hazardous wastes

**Water efficiency** – including mains and abstracted water

### OPERATIONS

**LEVEL 1**

**BASIC**

Businesses have some control in place and site operations are legally compliant with environmental legislation. Emphasis is on pollution control rather than prevention.

**LEVEL 2**

**ACKNOWLEDGEMENT**

Businesses have an ad-hoc process for identifying environmental legislation affecting their products. The focus is on compliance with existing legislation.

**LEVEL 3**

**PRACTICE**

Businesses analyse suppliers’ environmental impacts. There is some discussion of environmental impacts with key suppliers as part of planned engagement. Environmental management is considered for more contracts.

**LEVEL 4**

**INTEGRATED**

Businesses are delivering operational efficiency by reducing resource intensity and environmental impacts over the longer term. Consideration of environmental sustainability contributes to reduce through-life costs.

### PRODUCTS

**LEVEL 1**

**BASIC**

Businesses have some processes in place that require suppliers’ environmental credentials. Ad hoc discussions with suppliers on environmental management issues take place.

**LEVEL 2**

**ACKNOWLEDGEMENT**

Businesses manage environmental impacts by considering operational efficiency over the short and medium term. Emphasis is on pollution prevention.

**LEVEL 3**

**PRACTICE**

Businesses consider minimising the environmental impacts of products at the design phase. Key environmental impacts of products are managed using a systems approach. Environmental design options are developed and discussed with the customer.

### SUPPLIERS

**LEVEL 1**

**BASIC**

Businesses have some processes in place requiring suppliers’ environmental credentials. Ad hoc discussions with suppliers on environmental management issues take place.

**LEVEL 2**

**ACKNOWLEDGEMENT**

Businesses include environmental sustainability impacts as part of wider supplier engagement programmes. Contractual frameworks support environmental sustainability with regular supplier reviews. Environmental sustainability criteria part of the supplier solutions process.

**LEVEL 3**

**PRACTICE**

Businesses work with suppliers to incorporate environmental sustainability considerations as part of a proposal/contract to customer.
Many of our products have long lifecycles, operating in hostile environments for many years in a multitude of nations. Consequently, we must be proactive regarding the evolving environmental laws and regulations of our markets, driven by emerging knowledge of potential health impacts of materials and substances we use in our products. We balance innovation with marketability and long-term sustainability, always mindful of the potential impacts to people and the environment.

Michael Hurley, BAE Systems Inc. Product Safety & Environmental Working Group Chair
Management approach

Our approach to product stewardship is well established. It is based on a combination of long-term development and use cycles, allied to R&D and a drive to reduce environmental impacts. Where specified, we adopt a through-life approach, which means that we support customers to maintain products in use and dispose of them responsibly. This is defined in our Code of Conduct and integrated into our Lifecycle Management Framework, which specifies how we manage projects. The latter is overseen by the Managing Director Performance Excellence.

Environmental impacts through the lifecycle

We aim to reduce these impacts during product design, in the manufacturing process and through procurement. The table below highlights examples of environmental stewardship throughout the lifecycle.

The products we make can have an impact on the environment, including:

- Product emissions that contribute to climate change and can affect local air quality
- Residual ordnance that can contaminate land or water courses and could affect the health of local communities
- Disposal of hazardous materials from product manufacture and maintenance.

Guidelines

Our Group-wide Environmental Policy and Product Environmental Management Handbook are the main internal standards and guidance to which all employees work. Our environment teams develop specific guidance documents and share best practice to promote consistently high standards across the Company.

The Department of Transportation Services (DTS) of the City and County of Honolulu, Hawaii has selected BAE Systems’ HybriDrive Series-E propulsion system to power four 60-foot, low-floor rapid transit buses. The system enables bus operations, such as air conditioning and power steering, to run electrically, offering improved fuel economy, reduced noise and exhaust emissions.

HybriDrive powers 4,200 buses worldwide, transporting more than 693 million passengers, saving more than 9 million gallons of diesel fuel and preventing more than 100,000 tons of CO₂ emissions per annum. The Hawaii units are developed and built at our Endicott, New York, facility.

These hybrid buses perform best under low average speed and frequent stop conditions. The technology makes these buses best-suited for use in Honolulu’s urban core. It’s a win-win for the transit community and for the clean environment we all treasure in Hawaii.
Working with customers

For complex products like an aircraft or land vehicle, the majority of carbon emissions in their lifecycle come from their use, and not their manufacturing or disposal. We work with our customers to help them understand the through-life carbon footprint of our products. Our customers are also increasingly asking for the environmental credentials of our products, particularly in the UK and the US. We work with the UK Ministry of Defence on the Sustainable Procurement Strategy and provide appropriate environmental outputs to support our customers’ requirements. We also invest in R&D to develop innovative solutions that can improve safety and well-being or reduce environmental impacts beyond our own operations and products.

Our research into future aircraft technologies and applications has highlighted some exciting possibilities, including:

- On-board 3D-printing of small UAVs that could be used to rescue individuals in peril or provide protracted surveillance.
- ‘Transformer’ aircraft that can combine for long distances, then split into smaller units to perform specific tasks such as surveillance or supply drops.
- Directed Energy Systems that can be used to protect ground troops from incoming projectiles via beams of concentrated energy.
- Self-healing aircraft that are made of carbon nanotubes, which release lightweight adhesive fluids that can ‘heal’ a damaged airframe in flight.

As part of the design and development work on the Successor submarine, two years ahead of the construction phase, we have created a working version of the vessel’s control and manoeuvring rooms. The Successor Agile Engineering Capability (AEC) utilises real data feeds and working touch screen monitors, with the same wiring and seating positions. The system helps to ensure that when orders are placed with hardware and software vendors, the specification is based on both practical and theoretical knowledge. The system has been endorsed by our own safety and operability teams, industrial partner Rolls-Royce, as well as the Ministry of Defence.

Richard Hill, Successor Control and Instrumentation Engineering Manager, said: “We have had crew members from Astute, Ambush and Artful in here, as well as three Vanguard-class boat crews. We have taken them through a set of scenarios and it has been very successful. As a result we have a more robust expression of requirements much earlier in the programme.”

The AEC has established such a good reputation that our Type 26 Global Combat Ship team has visited the facility to see what they can apply to the Naval Ships programme.

BAE Systems played a key role in supporting the European Space Agency’s (ESA) Rosetta mission, which successfully landed the unmanned probe, Philae, on the Comet 67P/Churyumov-Gerasimenko on 12 November 2014.

Our contribution was the powerful computer system known as the Intermediate Frequency Modem System (IFMS).

IFMS was used by ESA to navigate the spacecraft during its 10-year mission, during which it has travelled 800 million kilometres away from the sun and close to the orbit of Jupiter. IFMS can measure the speed to within fractions of a millimetre per second and the position of the spacecraft to within a metre anywhere in the solar system. It also uses an innovative receiver that picks up the incredibly weak signals sent back to Earth, including the images of the comet seen via the worldwide media.

Approaching, orbiting, and landing on a comet requires delicate and very accurate manoeuvres. The target comet is a relatively small object about 4 kilometres in diameter, moving at 55,000 kilometres per hour. What we did was create a ‘smart phone’ for interplanetary communication, command and control that gave the European Space Agency the capability to communicate with and control the Rosetta probe.

WE HAVE A MORE ROBUST EXPRESSION OF REQUIREMENTS MUCH EARLIER IN THE PROGRAMME.

55,000 kilometres per hour
We spent more than £8,835m in 2014 with over 27,000 suppliers across the world. We encourage them to embrace ethical values of a comparable standard to our own. Ensuring fair treatment and raising standards is therefore a key priority.

Management approach
We require all suppliers to comply with local legislation and meet standards equivalent to our own on ethical conduct, health and safety, environment, civil liberties and human rights. Compliance with our own standards is checked during the supplier selection process and ongoing quality and approvals assurance.

Procurement
Our Global Procurement Council consists of procurement directors from across the business and oversees relationships with suppliers, including training for procurement teams. The Supplier Management Working Groups are the main bodies that ensure compliance with standards in our home markets and share best practice around the Group.

Supplier contracts include clauses requiring compliance with our Code of Conduct or equivalent standards. For those sub-contractors working on strategic projects, our due diligence is more extensive. Any potential concerns are identified as ‘red flags’ and further screened before contractual approval.

We have also developed guidelines for our procurement teams to assess suppliers against our Responsible Trading Principles and anti-bribery and corruption criteria. This assessment process is aided by a set of Responsible Trading Characteristics for Procurement, which asks six questions relating to issues such as environmental effect, safety, export controls, human rights and legal controls. After selection, we continue to engage with major sub-contractors at all stages of a project, through to completion.

Mike Webb, Head of Procurement, BAE Saudi Arabia LTD
Supplier Payment Policy
Our policy is that all suppliers should be paid in accordance with the payment terms and conditions stated in the applicable purchase order. In the UK, the Group is a signatory to the government’s Prompt Payment Code, under which we commit to paying on time, clearly communicate payment procedures and encourage adoption of the Code. The average payment time for our suppliers in 2014 was 30 days net on acceptance of invoice.

Sustainability in the supply chain
Our Environmental Sustainability Maturity Matrix (ESMM) provides a framework to support our efforts in addressing all environmental impacts, including those within the supply chain. We bring this to life through sustainable procurement working groups, where our teams and suppliers learn and adopt best practice. The working groups are guided by and contribute to our company-wide Sustainable Procurement Handbook.

The environmental issues covered by the working groups range from packaging materials through recycling to optimising logistics.

Improving supply chain effectiveness
We are a founder member and signatory to SC21, the UK aerospace, defence and security industry supply chain initiative. SC21 is a change programme designed to accelerate the competitiveness of the aerospace, defence and security industry by raising the performance of its supply chain.

International competitiveness, together with the challenges posed by the defence industrial strategy, necessitates rapid improvement in the effectiveness of our supply chains.

New, greener engine technology is now available to US bus operators thanks to a partnership between BAE Systems and Cummins, a global leader in the design and manufacture of diesel and natural gas engines.

Our start/stop technology – also known as anti-idle mode – has been tested on buses in Pennsylvania and Minnesota, and is slated for delivery to other customers later this year.

Transport operators can now employ engine stop/start technology to shut off bus engines as passengers board and disembark, reducing air emissions, noise and fuel consumption. This advancement is available for all buses equipped with Cummins ISB6.7 Hybrid engines and BAE Systems’ HybriDrive® Series-E propulsion systems.

30 DAYS
Average supplier payment time
Community Investment

We are an employer of long standing in many locations across the world. Significant relationships have been established with not-for-profit organisations, schools and NGOs in these places.

Management approach
We actively seek to have a significant and positive impact on communities, through the contributions of individual employees or our corporate programmes. This is the responsibility of our community investment team. This channels Group support and empowers our employees to engage through donations, fundraising, sponsorship, education initiatives and volunteering or assistance. The programme is promoted at a local level and through the corporate website, intranet and associated media.

Long-term investments
In 2014, our Community Investment programme contributed more than £11m1 to local, national and international charities and not-for-profit organisations. We are a member of the London Benchmarking Group – a network of over 120 leading companies working to improve the effectiveness of their community investment activities.

As well as one-off support, in the UK we also invest for the longer term through our Relationship Charity Awards which fund projects for up to five years.

Community Investment benefits charities and our business by helping us build good relationships with local communities and by contributing to employee development and job satisfaction.

Louise Baverstock-Price, Head of Group Community Investment

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Supporting the armed forces

Our work and that of the UK, US, Saudi Arabian and Australian armed forces, in particular, are indelibly linked. Our products and technology are designed to assist and protect these service personnel, therefore, as a business, we are driven to assist armed forces charities and support agencies.

We focus on projects and organisations that support both serving and veteran members of the armed forces and their families, as well as injured servicemen and women who need continued support.

In the UK, we contribute to the work of four key military charities – ABF, The Soldiers Charity; The RAF Benevolent Fund; The RNRMC and SSAFA, all of which support current and former members of the armed forces and their dependants. Our employees also work with the Royal British Legion to assist with the Poppy Appeal, which raises funds for the Legion’s work and highlights the contribution of the armed forces past and present. We also sponsor UK4U Thanks! – a charity which gives Christmas gift boxes to UK forces serving overseas.

In the US, we work with partners such as:

- The Mission Continues – supporting teams of veterans with a positive transition back into their home communities through their work to establish and address a local community cause, and build connections and opportunities.
- United Through Reading – helps ease the stress of separation for military families by having service members who are separated from their children read children’s books aloud on video for the child to watch at home.
- Operation Homefront – supports the ‘Back-to-School Brigade’ that helps the children of military families prepare for their back-to-school needs.

I don’t know how to describe the feeling of making a difference… Knowing just a small amount of my time can help someone in some way, gives my life extra purpose.

Marie Hand, Electronic Systems, Executive Assistant
Volunteering and fundraising

Volunteering enables employees to contribute their time, knowledge and skills to make a difference through a wide range of activities with local schools, charities and volunteer organisations.

Where possible, volunteering is integrated into formal career development programmes. Examples include running a careers advice session at a local school or providing health and safety training for a local charity.

Employees are also regularly involved in a range of individual or team volunteering projects such as helping out in local schools and packing Christmas boxes for injured armed forces personnel and their families.

In the US, we encourage employee fundraising through our Matching Gift Plan that matches employee contributions dollar for dollar up to $2,500 per year, per employee.

$2,500
Per year per employee

First, for Inspiration and Recognition of Science and Technology, is an independent organisation that aims to show students of all ages that science, technology and problem-solving can be both fun and a rewarding career path.

First organises a range of programmes, including an annual robotics competition, which BAE Systems Inc. has supported for the past 18 years.

It is a perfect fit for the Company because it provides hands-on experience and opportunities for collaboration, critical thinking, creativity and communication, as well as building confidence.

Volunteering and fundraising

Our Submarines business is a key employer in Barrow-in-Furness in Cumbria. Therefore, when a Furness Poverty Commission report in 2013 concluded that approximately 3,000 children live below the poverty line in the local area, we were driven to act.

The report highlighted the fact that poverty can “affect the long-term ability to sustain employment....and lead to low self-esteem and inter-generational lack of aspiration.” This resonated with our team in Barrow, which aims to ‘secure our future workforce’.

As a company, we also know that we gain a high degree of commitment and buy-in from locally recruited employees.

One noteworthy response to the report came from Corporate Responsibility Adviser, Michelle Knott. Michelle organised the creation and collection of 180 backpacks that were filled with educational material, such as puzzles and colouring books, and distributed these to pupils from deprived areas of Barrow.

Michelle now represents BAE Systems on a committee formed by the Commission, with the aim of enacting the report’s recommendations. Two key areas being addressed are changes to the educational curriculum and the creation of a network of individuals from different businesses that inspire children and act as role models.

Jackie Arnold, Submarines’ Head of Strategy and Business Planning said: “We provide mentors and ambassadors into local schools, who help with employability skills, such as interview techniques and CV writing. This levels the playing field and gives children every opportunity to join our business. While great strides have been made, poverty and its effects remain an ever present challenge, which Submarines, working with local stakeholders, will continue to tackle through its community investment programme. At a time when our business faces such exciting growth, with a business plan which sustains that growth for the next 20 year, there’s never been a better time for us to make a real difference to the local community.”
CONTACT US

corporate.responsibility@baesystems.com