What you will find inside this report

Contents

Overview of CR at BAE Systems

The big picture

Our approach

2015 in review

Contact us

Where else can you find corporate responsibility information?

Corporate responsibility information is embedded in our Annual Report and Accounts 2015 and on our corporate website:

At BAE Systems, we provide some of the world’s most advanced, technology defence, aerospace and security solutions. We employ a skilled workforce of some 82,500 people in over 40 countries. Working with customers and local partners, our products and services to deliver military capability, protect people and national security, and keep critical information and infrastructure secure.

Corporate Responsibility (CR) is part of our core culture and values. It enables us to generate sustainable, long-term value for our shareholders, our customers, our people, our suppliers and the communities where we operate. This report describes how we approach CR – to benefit our business and wider society – under the themes of trust and integrity, our people, health and safety, resource efficiency, product stewardship, supply chain and community investment.

We continued to progress recommendations from NAVEX Global’s independent assessment of our business conduct programme, focusing on supporting middle managers in developing the right culture to drive responsible behaviours and integrating functional programmes on responsible behaviour to leverage engagement opportunities with employees.

Our businesses devised and agreed diversity and inclusion plans. During 2015, we recruited 292 graduates and 724 apprentices and higher-level apprentices to support the talent pipeline in the UK.

724 apprentices in 2015

The safety of our employees, and anybody who works on, or visits, our sites, remains a priority for the Group. During 2015, the Recordable Accident Rate decreased by 15%, consistent with the stretch target set. However, major injuries are not decreasing at the same rate, with the severity of injuries increasing. During 2015, the number of major injuries increased by 21%. The Group is reviewing root cause analysis of major injuries and will continue to focus on risk reduction and embedding safety culture to drive improvements.

15% reduction in Recordable Accident Rate

In 2015, the Group signed a collaboration agreement with Reaction Engines, a UK company, to accelerate the development of its SABRE™ aerospace engine that combines both jet and rocket technologies. It has the potential to revolutionise hypersonic flight and space access.

We continued to focus on making our operations as energy and resource-efficient as possible. We have a new solar farm, powering our Military Air & Information facility at Samlesbury, UK; large scale solar electricity at our Portsmouth Naval Base buildings in the UK; and Scandinavia’s largest facade-mounted solar array on the BAE Systems Hagglunds building in Örnsköldsvik, Sweden.

£11m Community investment

In 2015, our Community Investment programme contributed more than £11m to local, national and international charities and not-for-profit organisations.

Some of the highlights are described here:

2. Including share of equity accounted investments.
Overview of CR at BAE Systems

This section summarises our view on CR, identifies highlights and challenges and describes the nature and scale of our business.
Corporate Responsibility Summary

Overview of CR | The big picture | Our approach | 2015 in review | Contact us

BAE Systems | Corporate Responsibility Summary

Chief Executive’s Review

Corporate Responsibility (CR) is a key important enabler for our business. It underpins our goal of being the premier international defence, aerospace and security company that delivers sustainable growth in shareholder value. We are geographically diverse and have products across all domains of defence and security, and need to establish strong partnerships and engage with many stakeholders. Our customers range across governments to commercial companies. In all cases we need to be open and ethical. Our suppliers can be large corporations or small and medium sized enterprises, but regardless of their size or function, we need to be fair and open in our dealings. Our businesses use resources and generate waste, necessitating a strong focus on efficiency and reducing our environmental footprint. Our business is underpinned by strong engineering and advanced manufacturing capability – including manufacturing systems, materials, avionics, network security and cyber security. The ability to harness our employees’ skill levels and experience is central to our value proposition. Engineering skills are vital to BAE Systems and companies in the global supply chain. We are reliant on a pipeline of young talent having studied Science, Technology, Engineering and Mathematics (STEM) subjects. BAE Systems has introduced a number of initiatives which support the promotion of STEM subjects and careers for young people in the markets in which we operate. The safety of our employees, and anybody who works on, or visits, our sites, is a key priority. We provide training and tools for employees to help them understand the importance of a safe workplace. Senior leadership plays a key role in maintaining the focus on safety and leading through example.

We are saddened to report that, during 2015, there were two air incidents that resulted in seven fatalities, four of our employees and three from other companies. We have been supporting investigations with air accident authorities in Saudi Arabia and the US, and are carrying out internal reviews into the incidents. This report documents our priorities and describes our progress in 2015 and goals for 2016. Activities in these areas are key to delivering long-term sustainable value to our shareholders, our customers and all of our stakeholders. We will continue to invest in our people and their behaviour, safe working practices, community investment, education, resource efficiency and environmental awareness.

Ian King
Chief Executive

Chairman’s Review

Corporate Responsibility Committee

Our market environment is constantly changing, driven by government spending, geopolitics, security concerns and technology shifts. It is therefore imperative that we have a strong and robust core culture and clear values that guide our behaviour when navigating the complex world in which we operate. This culture has responsibility at its centre – for our actions, for our people, for our customers, for our suppliers, for communities, for the environment and for our shareholders.

A key action was a deep dive into culture and behaviour across the business. This looked at the ways in which culture interacts with safety and how lessons learned can be shared across the business, quickly and effectively. The Committee also carried out a review of the Group’s product safety policy, in particular, compliance with contractual, legal and regulatory requirements. The Committee took time in 2015 to look at our commercial arrangements and the processes we have in place governing how we contract with customers and the behaviours we expect to see from our employees when dealing with commercial arrangements. In August 2015, members of the Committee visited US shipyards in Mobile, Alabama, and Norfolk, Virginia. This allowed them to gain a detailed understanding of the management approach in such challenging safety environments. The members spoke to many employees in different roles and spent time with management teams.

During 2016, we will continue to undertake deep dive reviews and assess progress against the objectives for safety, ethics, diversity and inclusion. Another site visit is also planned to see the business culture in action.

Ian Tyler
Chairman, Corporate Responsibility Committee
Maintaining world-class safety performance

Safety is a strategic priority for BAE Systems. While we improved our performance (Recordable Accident Rate) in 2015, we recognise the need to concentrate our efforts on strengthening our safety culture. This is the challenge that we have set ourselves and one that requires our employees and contractors to work with us to assess, manage and reduce the risks attached to their roles. Our approach to safety needs to constantly evolve with our business, new products, locations and functions. For example, it needs to be as relevant to our office-based businesses as it is to large scale engineering and advanced manufacturing.

Improving standards through the supply chain

We depend on almost 27,000 suppliers to support our business and provide innovative and cost-effective products. We have clear expectations for all suppliers around ethical conduct, health and safety, environment and human rights. Compliance to our required standards is evaluated during the supplier selection process, then as part of ongoing quality and approvals assurance. In order to streamline and improve this process, we have developed a new Procurement Policy and Supplier Principles – Guidance for Responsible Business, that will be launched Group-wide during 2016.

Attracting and retaining skilled employees

Our investment in employees and the future talent pipeline starts before recruitment; we actively support education and skills development in schools and colleges across our international business, as well as offering an exciting range of graduate, undergraduate and apprentice opportunities. In 2015, we welcomed more than 1,000 apprentices and graduates into the UK business, the largest intake in our history. Our employees benefit from excellent training and development opportunities. The number of apprentices that stay with the Group is amongst the best of any UK programme, hence we won the National Apprenticeship Service, Macro Apprentice Employer of the Year Award. The completion rate (after three years with the Company) will reach a predicted 96% in 2015/16, compared to 88% in 2011/12. Our own business surveys show that even after five years c90% of apprentices remain with the Group.

Innovation in manufacturing

Our manufacturing activities range from large scale engineered structures through to microelectronics. We use advanced technologies and lean methodologies to maintain performance, for example, our Design for Manufacturing and Test team identify resources and cost savings in advance of production. Our global training centre also runs accredited manufacturing training courses. More than £500m has been invested in the latest technology, facilities and people at Samlesbury in the UK (of which over £150m has been contributed by the Group) to deliver aircraft sets for the F-35 Lightning II programme. Work is underway on the extension of our final assembly facility which is due to be completed in 2017 and will enable the manufacture of up to 160 aircraft sets per annum, an increase of approximately 250% from current levels.
Market overview

The defence industry is global and constantly changing in response to geopolitical and technological shifts.

This requires industry players to harness academic and research expertise. With its skills and experience in aerospace and intelligent systems, the business is well placed to benefit from the forecast global spending in these domains of £82bn per annum over the next five years.

**us$1.8tn**

The value of the global expenditure on defence in 2014.

**£11.9bn**

UK defence and security exports in 2014 were £11.9bn.

**£17.8bn**

The UK Government is a key customer, with an anticipated MOD spend of £17.8bn on equipment and equipment support over the next ten years.

**160,000**

People employed in the UK’s defence industry.

**114,200**

People in the supply chain.

**4,900**

Apprentices and trainees.

---

5. ADS (2014), UK Defence sector overview.
Our business at a glance

BAE Systems has strong, established positions in the air, maritime and land domains, as well as a growing position in cyber security.

### Sales by domain

- **Air**: 53%
- **Maritime**: 28%
- **Land**: 13%
- **Cyber**: 6%

### Sales by destination

- A (US): 36%
- B (UK): 23%
- C (Saudi Arabia): 21%
- D (Australia): 3%
- E (Other): 17%

### Sales by activity

- A (Military and technical services and support): 42%
- B (Platforms): 37%
- C (Electronic systems): 14%
- D (Cyber): 7%

1. Including share of equity accounted investments.
We employ a skilled workforce of 82,500 people\(^1\) in over 40 countries. Working with customers and local partners, our products and services deliver military capability, protect people and national security, and keep critical information and infrastructure secure.

\[\text{Employees}^1 \text{ by location}\]

- **US**: 29,600
- **UK**: 33,800
- **Saudi Arabia**: 5,700
- **Australia**: 3,500
- **Other**: 9,900

1. Including share of equity accounted investments.
Our business at a glance

Our people

- have 82,500 employees worldwide
- have a diverse range of talented people
- invest in education and training for our existing workforce
- work with education sectors to help shape the workforce of the future

Our technology and engineering

- focus on technology innovation and engineering excellence
- invest in next-generation research and technology programmes to improve the manufacturing and service of products, generating substantial intellectual property
- spent £1,263m (2014 £1,343m) in 2015 on R&D, of which £168m (2014 £137m) was funded by the Group

Our project management

- have comprehensive project management skills and processes
- have a Lifecycle Management process that promotes the application of best practice programme execution

Our key relationships

- set clear expectations for all suppliers
- assess supplier performance and compliance with local legislation
- work only with approved advisers

Supported by strong governance processes...

Operational Framework

Our Operational Framework sets out how business is done across BAE Systems. It is based on principles of good governance, and details the values, policies and processes that are mandated, and how the Board delegates authority to the executive team.

Risk Management

We have robust procedures for risk management and internal control to identify, analyse, evaluate and mitigate both financial and non-financial risks.

Code of Conduct

We manage our operations responsibly and conduct our business in an ethical way to earn and maintain our stakeholders’ trust.

Responsible trading principles...

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 assess carefully 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.

Focusing on the wider impacts of our business.

Safety

To improve safety standards, we focus on raising awareness of our employees’ role in identifying, managing and reducing safety risks.

Diversity and inclusion

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

Environment

We proactively manage the impact of our operations on the environment, with targets for the efficient use of resources set, and monitored, locally.

Community investment

We invest in the communities in which we operate through local recruitment, using local suppliers and supporting local charities.
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

Our strategy is guiding us through challenging market conditions. Government spending is still under pressure and competition is high across the world. We have responded by focusing on meeting our commitments to customers and on improving efficiency, affordability and financial performance.

All of these are essential to sustaining and winning new business. We have also continued to invest in our business and people and in the technology and skills we need to drive the business forward.

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

**Our mission** recognises the important role we play in protecting and enhancing our customers’ vital interests, from defence and national security to critical infrastructure and commercial information.

**Our strategy** sets out five key longer-term areas of focus to help us achieve our vision. Maintaining and growing our defence businesses remains a core part of our strategy. We also continue to pursue growth in adjacent markets, including cyber security and commercial avionics. We are a trusted partner to the governments of a number of countries around the world and we continue to expand our international business. We will continue to support and develop our people and enhance competitiveness to drive success.

We define our **strategic objectives**, which set near-term priorities and help employees to align their personal objectives to the Group’s strategy.

Each year, the Group has an overall objective to meet its financial targets and each Executive Committee member has specific annual objectives in support of the Group’s strategy.

**Our values** define how we work and represent a clear definition of our corporate culture.
Our business at a glance
continued

The wider impacts of our business

Commenting on the report, BAE Systems’ Chairman, Sir Roger Carr

Our employees are incredibly proud to play a key role in protecting and serving the Armed Forces that protect and serve us. In doing so, BAE Systems makes a material contribution to the economic health of the country as well as to the safety of the nation.

‘The Impact of BAE Systems on the UK Economy’, a report published by Oxford Economics in 2015, provides a comprehensive analysis of our economic impact in the UK at national and regional levels. It examines the contribution of our employees and the wider supply chain, as well as the value of our exports and technological innovation to the broader economy. Based on 2013 data, the report showed that BAE Systems contributes a total of £7.9bn to the UK economy, comprising direct, supply chain and workforce consumer spend contributions, equivalent to 0.46% of the UK’s total GDP. The Company sustained 122,700 full-time equivalent jobs. The business also spends about £80m per annum on training its UK employees.

It highlighted the Company’s wider impact, as its goods and services boost economic activity elsewhere in the economy. For example, in 2013, BAE Systems exports of £3.8bn comprised 1% of all UK exports, making a net positive contribution to the UK balance of payments of around £2.5bn. It is also one of the most productive companies in the UK, with productivity of £95,000 per worker, more than twice the national average. It is a significant contributor to regional economies in the North West (Lancashire and Cumbria), Scotland (Glasgow) and the South (Portsmouth) regions.

£7.9bn
BAE Systems contribution to the UK economy in 2013

122,700
Full-time equivalent jobs sustained, including 33,000 directly employed, 62,400 in the supply chain and 27,000 induced (via consumer spend) in 2013
We are a leading global defence, aerospace and security company. Our products and services support our customers to deliver best in class military capability, protect people, ensure national security and keep critical information and infrastructure secure.

Our markets are shaped by the global megatrends and these in turn influence the shifts in geopolitics, security concerns, government spending and technological advances. As part of our strategy, we constantly review changes in these trends to assess the impact and opportunities for our business.
The issue
Incidents of cybercrime have monetary implications for governments, companies and individuals. However, they also damage security, corporate reputations and value as well as individuals’ well-being. For example, in 2013, it is estimated that more than 800 million individual records were lost or stolen online, which could have a value of $160bn.

While estimating the job losses linked to cybercrime is difficult, it remains a factor. However, the biggest cost comes through damage to a company’s financial performance or value and the knock on effects on national economies. The cost will continue to grow as more businesses move functions online and e-commerce levels increase. There will also be greater losses of intellectual property, which could slow the rate of innovation.

BAE Systems Applied Intelligence operates at the cutting-edge of the fight against cybercrime. In 2015, its analysts noted that tools developed by the most sophisticated attackers were filtering down to others and being used widely. These attacks are more targeted, sophisticated and dangerous than in previous years.

It is a fast moving and shifting technological battlefield. Our Applied Intelligence team also notes the re-emergence of old-fashioned threats that were common 10 or 15 years ago. For example, they are seeing recent growth in the use of ‘phishing’, whereby e-mails purporting to be from reputable companies induce individuals to reveal personal information, such as passwords or credit card details. Another trend is the use of cyber attack techniques in traditional frauds such as insider trading or confidence tricks. At the same time, cyber-criminals are targeting smaller, less well protected companies within supply chains to get at their larger customers.

Our response
Given our defence focus, BAE Systems is a target for cybercrime and espionage. We therefore utilise the skills available within our Applied Intelligence team to protect our own data. Across the Group, there is a strong focus on business and personal data protection, backed up by our systems and ongoing training, testing and awareness raising.

In our day-to-day activities we create, use and manage a huge variety of information, from the weekly lunch menu to sensitive reports setting out the financial position of the Company on a particular project. Our Company Marking Standard categorises all of this information into four levels ranging from the lowest type of general day-to-day information through to the most highly sensitive, setting out the handling criteria and restrictions on disclosure for each level. In addition, the information may be subject to regulations such as Government Security Classifications, export control laws and regulations, and/or data protection or privacy legislation.
Key megatrends

Population and demographic shifts

The issue

In 1950, the number of people globally, aged 60 or over, was 205 million. In 2000, this had increased to 606 million and the number is expected to reach two billion by 2050. Along with this comes an increase in the median age of the world’s population, which will increase to 31.1 in 2050 (compared to 26.6 in 2000), taking into account increases in life expectancy.

By 2050, one in three people living in more developed countries is likely to be 60 or older. In less developed countries, one in five people will be over 60.

This aging pattern in many countries will lead to a declining labour force participation rate, which could have long lasting implications for the Global economy; as a reduction in any factor of production will slow growth. Variations do exist, for example, the growth in working age population in developing countries over the past two decades is double that seen in advanced economies.

Our response

Recruitment, retention, diversity and skills transfer are a high priority. We work with the education sector in our markets to identify and generate our future workforce, encouraging young people to pursue careers in Science, Technology, Engineering and Mathematics (STEM). Our diversity and inclusion programmes are comprehensive and operate in all of our businesses. At Group level, we focus on the development of high-potential women and increasing leadership diversity. At the business level, we operate a wide range of diversity and inclusion programmes appropriate to that operation and geography. Providing opportunity and career pathways for all is a crucial means of retaining employees. Our focus is on harnessing the skills and experience of our employees to manage and transfer knowledge where necessary.

Link to Principal Risks

8. Pension Funding

10. People

2. World Employment and Social Outlook – Trends 2015, ILO.
3. Our Principal Risks can be found in our 2015 Annual Report pages 54–57.
Key megatrends
Resource scarcity and environmental shifts

The issue
Consumption of most raw materials has increased over the past 50 years. The demand is expected to grow as the world’s population increases, incomes rise in the developing world and cities grow. According to the Global Footprint Network, humanity currently uses the equivalent of 1.5 planets to provide the resources we use and absorb our waste.

Our response
Embedding resource efficiency necessitates working closely with our suppliers. Our existing guidelines and new Supplier Principles – Guidance for Responsible Business (launched during 2016), promote environmental stewardship. Our resource efficiency programmes set targets for energy, water use and waste. This is backed up by continued investment in and upgrading of equipment and facilities, for example, the solar installations providing power for our sites in Portsmouth Naval Base and Samlesbury in the UK and Ornsköldsvik in Sweden. Our products are also designed and built with resource efficiency embedded, for example, our groundbreaking HybriDrive® low emission propulsion system.

1.5x
Humanity currently uses the equivalent of 1.5 planets to provide the resources we use and absorb our waste.

1. Defence Spending
2. International Market
9. Information Technology

Security and insecurity

The issue
Political, social, cultural, ethnic and economic tensions both within and between countries may lead to armed conflict and instability. The frequency and nature of conflicts can depend on underlying factors such as international law and normative frameworks, changing geopolitics, and evolving political attitudes in nations.

Our response
While we are a primary defence and aerospace company, we have a diverse product and service portfolio, operating internationally. Our products range from submarines and advanced fighter aircraft to avionics and cyber security. Our customers are also international and include governments and their agencies, as well as a growing portfolio of businesses.

Our Operational Framework, Product Trading Policy, Responsible Trading Principles, Pursuit of Export Opportunities, Export Control, Procurement and Commercial policies define how we select and approve customers, suppliers and partners. This process is fully audited.

Link to Principal Risks
1. Defence Spending

1. Our Principal Risks can be found in our 2015 Annual Report pages 54–57.
Key megatrends

Changing patterns of extreme weather and natural disasters

The issue
The UK’s Met Office, a leading authority on weather and climate, states that, “There is a growing body of evidence which shows that human influence on our climate is increasing the risk of certain types of extremes, notably heatwaves.”

These extremes of heat, wind and precipitation are expected to increase, although their exact nature will be unpredictable.

Such extremes can impact on our facilities and ability to operate, they can affect our employees and customers, disrupt our supply chain or increase raw materials prices and access.

Our response
We operate business continuity and resilience programmes that are designed to take extremes of weather into account.

Our products are also designed to operate in harsh environments. For example, the power packs on the engines of our land vehicles can power air conditioning systems, which incorporate spot cooling and drivers’ cooling vests.

There is a growing body of evidence which shows that human influence on our climate is increasing the risk of certain types of extremes, notably heatwaves.

UK Met Office

1. Defence Spending
9. Information Technology Security


Taranis is an unmanned combat aircraft system advanced technology demonstrator programme.

At the 2015 DSEI (Defence Security and Equipment International) exhibition in London, BAE Systems launched its BvS10 BEOWULF, a highly mobile, modular and fully-amphibious vehicle with an impressive payload to move heavier cargoes and satisfy special roles.

1. Our Principal Risks can be found in our 2015 Annual Report pages 54–57.
Key megatrends
Heightened stakeholder expectations

The issue
There is legitimate and growing interest in the performance of companies around corporate responsibility issues. This comes from internal or external stakeholders and is increasingly crystallised in national and international regulations, for example, the UK Modern Slavery Act 2015, UK greenhouse gas reporting regulations and the EU Non-Financial Reporting Directive.

Our response
Our key ‘transparency’ initiatives in 2015 include:
– Developing a response to the UK Modern Slavery Act (we are required to report in 2017)
– Submitting a response to the consultation on the EU Directive on Conflict Minerals

In 2015, Transparency International (TI) ranked BAE Systems within its Defence Companies Anti-Corruption Index. On a scale of A–F (where A is best), we scored ‘B’ for publicly available information and ‘A’ for public and internal information. Also in 2015, TI ranked BAE Systems within its Political Activities Index. We scored ‘C’ for publicly available information and ‘B’ for public and internal information.

Link to Principal Risks
5. Laws and Regulations

Key megatrends
A greater focus on corporate ethics and governance

The issue
Ethical behaviour as demonstrated by a company is seen as a key means of maintaining the confidence of external stakeholders. Governance in this area is of growing concern to shareholders, customers, employees, communities and governments. The place of ethics within a business is seen as a key measure of its legitimate licence to operate.

Our response
Our Operational Framework places ethical behaviour at the heart of our business. The framework is supported by a Code of Conduct, plus mandated policies and processes.

Employees across all levels of the Group, including our Board, are trained to understand how the Code of Conduct applies to them. We also operate a 24/7 Ethics Helpline and each of our businesses has Ethics Officers, who monitor performance and provide help and guidance if an employee has a concern.

Link to Principal Risks
4. Competition in international markets
5. Laws and Regulations
10. People

1. Our Principal Risks can be found in our 2015 Annual Report pages 54–57.
Our approach

At BAE Systems, we provide some of the world’s most advanced technology defence, aerospace and security solutions. We employ a skilled workforce of some 82,500 people1 in over 40 countries. Working with customers and local partners, our products and services deliver military capability, protect people and national security, and keep critical information and infrastructure secure.

1. Including share of equity accounted investments.
Deciding what matters

Creating a successful and sustainable business requires more than financial results. The Company places great importance not just on what we do, but how we do it. Acting as a responsible business is embedded within the Company’s Strategy and is supported across the business via our Corporate Responsibility agenda.

Defining priorities

Corporate Responsibility (CR) is a key enabler of our business and helps to drive current and future value generation. CR metrics are therefore incorporated into our Group Key Performance Indicators that cover financial performance, our dealings with customers, programme execution, demonstrating responsible behaviour and level and quality of engagement with our employees.

The Group 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 (including safety, diversity and inclusion) and resource efficiency.

While these are set at Group level, our individual business units and sites have a considerable degree of autonomy in ensuring that we work towards their achievement. This reflects the highly diverse nature of our activities, from complex engineering and manufacturing through to software and analytics. Implementation of our priorities allows for cultural differences and incorporation of unique initiatives across the various countries in which we live and operate – a prime example being the strong emphasis on employing veterans in the US, and it also reflects the different legal and policy requirements that we encounter as an international business.

Measuring performance

Our 2015 performance, as measured against our responsible business priorities, is described in the table below. The ‘2015 in Review’ section of this report offers a more detailed description of our approach to trust and integrity, our employees, resource efficiency, product stewardship, supply chain and community investment.
Responsible business priorities

<table>
<thead>
<tr>
<th>Trust and integrity</th>
<th>2015 priorities</th>
<th>2015 progress</th>
<th>2016 direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Roll out refreshed Code of Conduct</td>
<td>- Refreshed Code of Conduct rolled out across the Group via face-to-face briefings</td>
<td>- Roll out Code of Conduct refresher training across the Group</td>
<td></td>
</tr>
<tr>
<td>- Implement Ethical Leadership Group (NAVEX Global) recommendations to ensure continued improvement</td>
<td>- Continued to progress Ethical Leadership Group (NAVEX Global) recommendations to drive continuous improvement of business conduct programme</td>
<td>- Continue to instil responsible behaviour across the Group</td>
<td></td>
</tr>
<tr>
<td>- Continue to drive alignment and integration of the business conduct programme with human resources, legal and audit activities</td>
<td>- Integrated business conduct training and reporting with Human Resources, Legal and Internal Audit departments</td>
<td>- Further integrate the business conduct programme across Group functions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Our people</th>
<th>2015 priorities</th>
<th>2015 progress</th>
<th>2016 direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Continue drive towards a world-class level of safety performance</td>
<td>- Sadly, during 2015, there were two air incidents that resulted in seven fatalities, four of our employees and three from other companies</td>
<td>- Continue drive towards a world-class level of safety performance</td>
<td></td>
</tr>
<tr>
<td>- Achieve a 10% reduction (15% stretch target) in the Recordable Accident Rate</td>
<td>- The Group achieved a 15% reduction in the Recordable Accident Rate</td>
<td>- Achieve a 10% reduction in the Recordable Accident Rate</td>
<td></td>
</tr>
<tr>
<td>- Maintain focus on, and management and reduction of, significant safety risk</td>
<td>- The number of major injuries across the Group increased by 21%</td>
<td>- Continue to focus on management and reduction of significant safety risk</td>
<td></td>
</tr>
<tr>
<td>- Continue to drive a strong safety culture through communication, awareness and visible leadership</td>
<td>- All businesses set diversity and inclusion plans to address specific issues or strategic aims</td>
<td>- Continue to drive a strong safety culture through communication, awareness and visible leadership</td>
<td></td>
</tr>
<tr>
<td>- All businesses to continue to drive a diversity and inclusion agenda to address business needs and strategic aims</td>
<td></td>
<td>- All businesses to continue to drive a diversity and inclusion agenda to address business needs and strategic aims</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Resource efficiency</th>
<th>2015 priorities</th>
<th>2015 progress</th>
<th>2016 direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>- All businesses to continue to drive improvements in management of materials and resources</td>
<td>- All businesses set and met improvement targets for energy, water and waste, except where additional work opportunities and extremes of climate impacted</td>
<td>- All businesses to continue to drive improvements in management of materials and resources</td>
<td></td>
</tr>
</tbody>
</table>
Governance framework

The Operational Framework clearly sets out how we do business across BAE Systems. Based on principles of good governance it encapsulates our values, policies and processes, together with clear levels of delegated authority which enable us to operate in a clear, accountable and consistent way.

Ian King, Chief Executive
(quoted in the Operational Framework)

The Operational Framework is at the core of our system of internal controls. This feeds through to individual employees via the Code of Conduct and a suite of policies, principles and management systems. In 2014, we benchmarked and subsequently revised our Code of Conduct. This latest version (our third) was launched Group-wide in January 2015 (see Trust and Integrity).

Our CEO has primary responsibility for ensuring that we operate as a ‘responsible business’. He works closely with the Managing Director (MD) Corporate Responsibility to define the CR strategy. This process is informed by the Board, working through the CR Committee, which is chaired by a non-executive director.

This system of governance defines and guides our approach. By acting responsibly and conducting our business in an ethical manner, we earn and maintain our customers’ trust.

CR is embedded within the business through remuneration packages for our Group CEO, Group Finance Director and CEO of BAE Systems, Inc. Part of their annual reward packages are linked directly to Group safety performance.

The Code of Conduct and Responsible Trading Principles are followed by all employees and we encourage suppliers to embrace similar ethical standards to our own. In addition, our activities are governed by policies on, for example, Fraud Prevention, Offset, Export Control, Product Safety, Health & Safety, People, and Environment. The Operational Framework defines the way in which compliance with policies and associated targets is assessed by our businesses.

As a global company, our policies take account of the laws and standards applicable in our countries of operation. For example, we are defining our response to the UK’s Modern Slavery Act 2015 and the European Union Directive on Conflict Minerals.

CR Committee priorities in 2015

- Conduct a review of policy and practice of safety management and culture across the US shipyards.
- Confirm the Company’s processes governing the Ethics Helpline are effective.
- Monitor progress on developing a methodology to assess product safety culture.
- Review the commercial arrangements and the processes the Company has in place governing how it contracts with suppliers and customers.
- Provide continued oversight of anti-bribery and corruption policies.
Responding to our stakeholders

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.

<table>
<thead>
<tr>
<th>BAE Systems as...</th>
<th>Stakeholders...</th>
<th>Their interest...</th>
<th>Find out more...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community partner</td>
<td>National &amp; Local government</td>
<td>Local employment</td>
<td>Employees P30</td>
</tr>
<tr>
<td></td>
<td>Employees &amp; families</td>
<td>Community</td>
<td>Community P51</td>
</tr>
<tr>
<td></td>
<td>NGOs/Charities</td>
<td>Community investment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investors</td>
<td>Long-term view</td>
<td></td>
</tr>
<tr>
<td>Defence business</td>
<td>Government</td>
<td>Transparency and honesty</td>
<td>Trust and integrity P24</td>
</tr>
<tr>
<td></td>
<td>NGOs</td>
<td>Clear communication</td>
<td>Suppliers P09</td>
</tr>
<tr>
<td></td>
<td>Investors</td>
<td>Contractual terms</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Conduct and behaviour</td>
<td></td>
</tr>
<tr>
<td>Engineering/technology business</td>
<td>Education sector</td>
<td>Engagement with schools</td>
<td>Employees P30</td>
</tr>
<tr>
<td></td>
<td>Suppliers</td>
<td>and universities</td>
<td>Community P51</td>
</tr>
<tr>
<td></td>
<td>Customers</td>
<td>Research base</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regulators</td>
<td>Development</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td>Government</td>
<td>Employee terms and</td>
<td>Employees P30</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
<td>conditions</td>
<td>Community P51</td>
</tr>
<tr>
<td></td>
<td>Customers</td>
<td>Recruitment and retention</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regulators</td>
<td>Personal/professional</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investors</td>
<td>development</td>
<td></td>
</tr>
<tr>
<td>Global business</td>
<td>International agencies</td>
<td>Market drivers and shifts</td>
<td>Our approach P18</td>
</tr>
<tr>
<td></td>
<td>Governments</td>
<td>Megatrends</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturer</td>
<td>Employees</td>
<td>Operational safety</td>
<td>Employees P30</td>
</tr>
<tr>
<td></td>
<td>Regulators</td>
<td>Compliance</td>
<td>Safety P36</td>
</tr>
<tr>
<td></td>
<td>Customers</td>
<td>Product quality</td>
<td>Resource efficiency P40</td>
</tr>
<tr>
<td></td>
<td>Regulators</td>
<td>Employee conditions</td>
<td>Product stewardship P44</td>
</tr>
<tr>
<td></td>
<td>Investors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public company</td>
<td>Government</td>
<td>Business performance</td>
<td>About BAE Systems P04</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Governance</td>
<td>Our approach P18</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Trust and integrity P24</td>
</tr>
<tr>
<td>Significant procurer</td>
<td>Suppliers</td>
<td>Commitment</td>
<td>Employees P30</td>
</tr>
<tr>
<td></td>
<td>Investors</td>
<td>Fairness</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transparency</td>
<td></td>
</tr>
<tr>
<td>Strategic partner</td>
<td>Government</td>
<td>Strategic vision</td>
<td>About BAE Systems P04</td>
</tr>
<tr>
<td></td>
<td>Customers</td>
<td>Openness and transparency</td>
<td>Our approach P18</td>
</tr>
<tr>
<td></td>
<td>Suppliers</td>
<td>Communication</td>
<td>Trust and integrity P24</td>
</tr>
<tr>
<td></td>
<td>Investors</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The FAQs within the Corporate Responsibility section of our website provide answers to many of the key questions asked by our stakeholders.
This section describes in some detail our approach to our seven CR priorities.
How we work is governed by our Operational Framework, Code of Conduct and policies. These reflect our values – to be Trusted, Innovative and Bold.

<table>
<thead>
<tr>
<th>2015 priorities</th>
<th>2015 progress</th>
<th>2016 priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roll out refreshed Code of Conduct</td>
<td>Refreshed Code of Conduct rolled out across the Group via face-to-face briefings</td>
<td>Roll out Code of Conduct refresher training across the Group</td>
</tr>
<tr>
<td>Implement Ethical Leadership Group recommendations to ensure continued improvements</td>
<td>Continued to progress Ethical Leadership Group (NAVEX Global) recommendations to drive continuous improvement of business conduct programme</td>
<td>Continue to instil responsible behaviour across the Group</td>
</tr>
<tr>
<td>Continue to drive alignment and integration of the business conduct programme with human resources, legal and audit activities</td>
<td>Integrated business conduct training and reporting with Human Resources, Legal and Internal Audit departments</td>
<td>Further integrate business conduct programme across Group functions</td>
</tr>
</tbody>
</table>

**Highlights**

- More engagement with our Ethics Helpline and Ethics Officers, which demonstrates a high level of trust in the system and the Group’s response
- Transparency International rated BAE Systems a ‘B’ on our publicly available information and an ‘A’ on our public and internal information in the Defence Companies Anti-Corruption Index, for disclosure of ethics information

“We have made significant progress over the past five years in embedding a robust ethics-based culture. This is reflected in the trust being shown by our employees in our rapid and full responses to enquiries through the Ethics Helpline and Ethics Officers.”

Dominic Hall, Head of Ethical Business Conduct
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.

Our Code of Conduct requires us to 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.

Our policies require us to 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 are required to use the principles set out in the policy to determine the appropriate depth of evaluations in different situations.

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

Being open about what we do and how we do it helps us build trust among our stakeholders. We aim to communicate openly 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.
Trust and integrity

Ethics training

Employees underwent face-to-face Code of Conduct training during 2015, supported by ongoing compliance focused e-learning. Our Code of Conduct booklet was also revised, as planned, and launched in the first half of 2015. Some of the policy references were updated for example, guidance was offered on use of social media and data privacy.

Employees will be conducting Code of Conduct refresher training during 2016.

<table>
<thead>
<tr>
<th>Enquiries to Ethics Helpline¹</th>
<th>2015 enquiries to Ethics Helpline¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,148</td>
</tr>
<tr>
<td>2014</td>
<td>1,037</td>
</tr>
<tr>
<td>2013</td>
<td>1,043</td>
</tr>
<tr>
<td>2012</td>
<td>1,024</td>
</tr>
<tr>
<td>2011</td>
<td>1,011</td>
</tr>
</tbody>
</table>

All enquiries reported to Ethics Officers and via the Ethics Helpline were reviewed and reported either to the Ethics Review Committee or, in BAE Systems, Inc., to the Ethics Review Oversight Committee.

<table>
<thead>
<tr>
<th>Dismissals for reasons relating to unethical behaviour¹</th>
<th>2015 dismissals for reasons relating to unethical behaviour¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>257</td>
</tr>
<tr>
<td>2014</td>
<td>286</td>
</tr>
<tr>
<td>2013</td>
<td>265</td>
</tr>
<tr>
<td>2012</td>
<td>292</td>
</tr>
<tr>
<td>2011</td>
<td>298</td>
</tr>
</tbody>
</table>

1. See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement

Almost half of the ethics contacts received are requests for guidance and advice. We encourage employees to contact us as early as possible when a potential incident can still be prevented by timely advice.
Trust and integrity

Ethics Helpline

Our multi-lingual Ethics Helpline is available to employees 24-hours a day via a freephone number, e-mail and an online reporting tool. We also have a network of Ethics Officers available to all employees. In 2015, 1,148 enquiries were reported to the Helpline (operated by a third party) and via the Ethics Officer Network. We also increased the number of Ethics Officers in the network and now have over 160 across our international business. The level of enquiries was comparable to 2014 and most encouragingly the proportion of enquiries that requested anonymity fell to 26%, which compares favourably with peer companies. The timing and nature of enquiries fluctuates, but globally, the most common reason for contact was for guidance and advice.

The nature of the enquiries varies across our businesses. For example, in the US, where employment law and associated rights are different to the UK, contacts with Ethics Officers reflected concerns over day-to-day employee relations.

In 2015, our internal Ethics Review Committee, audited the system and confirmed that all those that made an enquiry received a response. The Committee also reviewed the system and suggested how other issues, including grievance, employee assistance and expenses queries, could be integrated to track overall trends.

Ethics enquiries

1,148

Anonymity rate

26%

The percentage of employees raising ethics queries anonymously compares favourably with peer companies.

1. See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement
Trust and integrity

External standards

Our systems and processes are informed by external standards. For example, we are a member of the International Forum on Business Ethical Conduct (IFBEC) for the Aerospace and Defence Industry. All members sign up to IFBEC’s Global Principles of Business Ethics for the Aerospace and Defence Sector. The Group is also a corporate member of the UK Institute of Business Ethics, a UK charity that helps organisations to strengthen their ethics culture and encourage high standards of business behaviour based on ethical values, the UK Aerospace, Defence and Security (ADS) and the US Defence Industry Initiative – a non-profit organisation that promotes business ethics and integrity in dealings with the US Department of Defense.

In 2015, we continued to act on the recommendations made in 2014 by the Advisory Services Practice of NAVEX Global, a company that provides ethics compliance services to more than 8,000 companies across the world. These focused on further embedding the business conduct programme, particularly across our management tier.

Public policy and lobbying

All government and political lobbying is recorded in line with our Lobbying, Political Donations and other Political Activity Policy. This activity is reported annually to the CR Committee. Anyone lobbying on behalf of the Group must:

– Behave in accordance with our Code of Conduct and in compliance with local laws and regulations
– Act with honesty and integrity, and ensure the information they provide in their lobbying activities is factually correct and fairly represented
– Be open and transparent in dealings with governments

Any third party performing sales and/or marketing services for and on behalf of the Company must be appointed, managed and paid in accordance with our Advisers Policy.

The Group does not make corporate contributions or donations to political parties. Eligible employees in the US can choose to contribute to the BAE Systems Political Action Committee, which must operate in full compliance with US federal laws and regulations.

In 2015, Transparency International ranked BAE Systems within its Political Activities Index. On a scale of A–F (where A is best), we scored ‘C’ for publicly available information and ‘A’ where other, internal information, is also taken into account.

More information is available on the Transparency International website: companies.defenceindex.org

Offset

Offset agreements, are made with export customers. We have offset arrangements in a number of countries, through which we seek to support customers’ economic and development goals, and deliver long-term sustainable benefits. Typically we operate two types of offset:

– Related offset that relates to our products and services
– Unrelated offset that may be unrelated to defence. This can include investments in economic or social projects such as schools or infrastructure

All offset arrangements are governed by our Operational Framework, Code of Conduct and a detailed Offset Policy. This states that they are undertaken in accordance with our Code of Conduct; they have clear line management ownership and executive oversight; they are consistent with the customer’s offset policies and proportionate to the value of related contracts and that financial and non-financial risks are clearly assessed and mitigated.

Compliance with the Offset Policy is monitored via our Operational Assurance Statement process and performance is reported in our Quarterly Business Review. Our internal audit function may also confirm compliance with Group policy.
Advisers
We engage advisers to support our business in a number of ways, including market intelligence, promotion, customer insight, strategy, lobbying, business development, offset and security.
Our Adviser Policy governs the appointment, management and payment of all third parties supporting our sales and marketing or consulting on the strategic or political context of our business or aspects of security. It governs our process for selecting, appointing, managing, paying and terminating such advisers.
Compliance with the policy is monitored through our Operational Assurance Statement process. Adviser appointments are reviewed and assessed every two years by our Business Development Adviser Compliance Panel, chaired by independent lawyers. All candidates must be proposed and approved in accordance with our standards and be authorised by an external panel.

Taxation
Our Group’s tax strategy is to:
– ensure compliance with all applicable tax laws and regulations; and
– manage the Group’s tax expense in a way that is consistent with its values and its legal obligations in all relevant jurisdictions
We promote collaborative professional working with tax authorities in order to build open, transparent and trusted relationships. As part of this, the Group engages in open and early dialogue to discuss tax planning, strategy, risks and significant transactions, and discloses any significant uncertainties in relation to tax matters. Queries and information requests by tax authorities are responded to in a timely fashion and we ensure that tax authorities are kept informed about how issues are progressing. We seek to resolve issues in real-time and before returns are filed where possible. Fair, accurate and timely disclosures are made in tax returns, reports and documents that the Group files with, or submits to, tax authorities. Where disagreements over tax arise, we work proactively to seek to resolve all issues by agreement (where possible) and reach reasonable solutions.
Whilst BAE Systems aims to maximise the tax efficiency of its business transactions, it does not use structures in its tax planning that are contrary to the intentions of the relevant legislature. We interpret relevant tax laws in a reasonable way and ensure that transactions are structured in a way that is consistent with a relationship of co-operative compliance with tax authorities. We also actively consider the implications of any planning for our wider corporate reputation.

Human rights
BAE Systems is committed to respecting the human rights of our employees in the workplace. We will encourage our suppliers and business partners to adopt the same or similarly high standards of ethical behaviour. Our approach is outlined in a series of guidelines, including our Code of Conduct, Responsible Trading Policy, Pursuit of Export Opportunities Policy and People Policy.
We are currently reviewing our approach to the UK Modern Slavery Act 2015. We will publish our response in March 2017.
As our business grows and develops we must continue to recruit, retain and motivate skilled employees.

2015 priorities
All businesses to continue to drive a diversity and inclusion agenda to address business needs and strategic aims

2015 progress
All businesses set diversity and inclusion plans to address specific issues or strategic aims

2016 priorities
All businesses to continue to drive a diversity and inclusion agenda to address business needs and strategic aims

BAE Systems is a Company with great ambitions and nurturing a high-calibre workforce is vital to our future. BAE Systems remains committed to developing the skills needed in our sector and our graduates and apprentices enjoy not only high-quality training but real hands-on experience developing, building and supporting the cutting-edge products that will safeguard our national security in years to come.

Nigel Whitehead, Group Managing Director – Programmes & Support
Our people
continued

Management approach

Our Group HR Director reports to the CEO and oversees Group HR strategy, supported by a core team and HR heads in all of our businesses. The HR Council, led by the Group HR Director, defines employee policies and ensures they are adequate, relevant and support the Integrated Business Plan.

Our HR strategy is focused on ensuring that our employees are equipped to support our business now and in the future. This starts with recruitment, in particular our education programmes and talent pipeline. As well as good employment packages, training and development is a constant for all employees. We focus on improving and maintaining competence and transferring skills across the business in response to new and changing opportunities.

Our business is diversified functionally and geographically, therefore we place great emphasis on diversity and inclusion. This emphasis starts with the Operational Framework and runs through our businesses to the local level. Our focus is on harnessing the skills and experience of our employees to manage and transfer knowledge where necessary.

Identifying and recruiting talent

Our business needs employees with a wide range of skills, from electrical engineering to marketing and from software to human resources.

This, in turn, means that we have strong relationships with education providers in our key jurisdictions. This ranges from working with schools to promote Science, Technology, Engineering and Mathematics (STEM) subjects through to partnering with trade associations on education initiatives.

We also offer our own training curricula and maintain a strong emphasis on skills development for all employees.

Training and employee development

Training and employee development is critical. All employees can access programmes that blend e-learning, classroom training and partnerships with academic institutions. We also enable employees to transfer appropriate skills across different areas of the Group.

Our ‘Leading for Total Performance’ programme is designed to equip our current and future leaders to adapt their leadership styles and approaches to effectively respond to the business strategic priorities and drive performance in a highly competitive and ever changing environment.

Skilled and free to grow

In 2015, we welcomed more than 1,000 apprentices and graduates into our UK business, the largest intake in our history. Of the record 724 apprentices who joined in October 2015, just under half are based at our submarine design and manufacturing site in Barrow-in-Furness, Cumbria, which requires hundreds of highly-skilled employees to deliver the Astute class submarines and to develop the new ‘Successor’ submarines.

More than 120 of the 292 graduates recruited in 2015 will work within our cyber security business. This reflects the rising threat of fraud, cyber-attack and digital criminality, linked with the growth in digital data and transactions generated by governments and the corporate sector.

Age diversity

Our workforce demographic is similar to comparable business sectors. We sustain our workforce capabilities by attracting high-calibre people with a diverse range of experience, growing their skills and knowledge.

1. See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement
2. Excluding share of equity accounted investments and rounded to the nearest thousand employees.
Our people

continued

Diversity and inclusion

We remain committed to a goal of building a diverse workforce which respects the cultural and regulatory profile of the countries in which our businesses 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.

The Group has a number of programmes in place to improve diversity and inclusion across the business, including Executive Committee sponsored work streams to foster a culture of inclusion, accelerate the development of high-potential women and increase leadership diversity. This is underpinned by activities across the Group to improve diversity and inclusion locally.

Diversity through technology

Our businesses are making good use of technology to encourage young people to engage with STEM subjects.

Robogals is an international student-run organisation that inspires girls to take STEM subjects at school and university in preparation for engineering and technical careers. BAE Systems Australia is partnering with the University of Newcastle’s Robogals to engage the Hunter region’s female primary and secondary school students in engineering, robotics and programming.

Columbia Heights High School in Minneapolis takes part in an international programme called FIRST (For Inspiration and Recognition of Science and Technology) Robotics.

Employees from BAE Systems Minneapolis mentor the students through a six-week project, during which they design, build and operate robots. The students have to raise the funds, then learn and apply mechanical, electrical and software engineering skills. The 2015 programme required the students to build a robot that could stack recycling bags and bins, and even pick up litter. The Columbia Heights team had one of the lightest and quickest robots at the event and was placed 21st out of 63 international teams. “Students had an excellent time and got great experience working alongside BAE Systems’ engineers,” said Luke Bohnen, FIRST coordinator and mentor at our Minneapolis business.

1. See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement
2. Excluding share of equity accounted investments and rounded to the nearest thousand employees.
Our people continued

Engagement and communication

We encourage a culture of listening, understanding and communication. Employees contribute to a variety of business conversations through a range of channels that include surveys, digital media, magazines, reviews, podcasts, team briefings and training programmes. The business regularly reviews progress in workplace improvement, enabling employees to perform at their best.

We recognise and celebrate the inspired work of our people through our Chairman’s Awards recognition programme. The engineering skills and technological expertise of our exceptional people help us to deliver our strategy, producing innovative solutions and cutting-edge products that our customers trust. Our recognition scheme acknowledges these outstanding achievements.

The Awards are a three-tiered competitive process, in which nominations are submitted in the categories of:

– Embracing Responsible Behaviour
– Exceeding Customer Expectations
– Innovating for Success

The levels and the number of awards given at each level are:

– Business leader level – 510 awards
– Executive Committee level – 51 awards
– Chairman’s Award Gold level – 3 awards

Productivity through flexibility

We recognise that improvements in productivity come through empowering our employees to make decisions and change culture and behaviours. This is exemplified by the success of a pilot scheme run at our shipbuilding business in Glasgow since 2013.

The pilot focused on the Pipe Shop at Scotstoun and its team of supervisors, planners and production operators. It was based around the concept of ‘scheduled based working’, where employees determine their working patterns to meet business production targets.

In essence, if they completed their weekly schedules of work to the required standard in less than the mandated working week, they could decide how they used the remaining time, including leaving work early. If the work was not completed, they were required to work extra hours in order to meet the target.

While the key goal was productivity improvement, the pilot had many other benefits. It generated a much greater level of co-operation, with the team supporting each other and building trust with supervisors, who took on more of a coaching role. The team self-regulated with greater personal and group ownership and responsibility. It also generated new ideas on ways to further improve systems and working practices.

The pilot shows that where people are given the autonomy to organise their own work and incentives are aligned, they will identify workplace improvements that increase productivity and job satisfaction.

Life for an employee at BAE Systems

Life for an employee at BAE Systems starts when they first engage with the business. This may be through our education programmes, veterans’ organisations or a recruitment process. Once engaged with the business, their life is characterised by good employment packages and a strong emphasis on job satisfaction, and training and skills development. They can also expect to be treated fairly and with respect during their career.
Rewarding diversity

Our Naval Ships business has won the Agile Organisation category of the Opportunity Now Excellence in Practice Awards 2015. It recognises leadership in creating an inclusive workplace for women. Opportunity Now is the workplace gender equality campaign run by Business in the Community, a membership organisation that aims to create a fairer society and more sustainable future.

Helena Morrissey CBE, CEO, Newton Investment Management and Chair, Opportunity Now, said: “I’d like to congratulate BAE Systems on their Award success. They have demonstrated clear leadership by moving women’s progression from a ‘diversity’ initiative to a core business priority.”

Our Military Air & Information business hosted two ‘Inspiring Females’ events in 2015. The events are designed to encourage and motivate our female employees and show them that there are no barriers to their career development within the Group. One of the meetings launched HeforShe, the international gender equality campaign, into the Military Air & Information business.

The second meeting was built around a debate with senior executive and engineering employees on how they have built their own careers at BAE Systems.

It’s all plane training

Our apprentice and graduate training programmes in the UK are sought-after and provide us with a cohort of motivated and skilled employees who will form the backbone of our business in the future.

A highlight in 2015 was the introduction of our Aerospace and Airworthiness trailblazer apprenticeship standards. Developed by the Group and other defence companies, they will ensure that apprentices experience a consistent and relevant training curriculum, making them fit for current and future work. The standards were approved by the UK Department for Business, Innovation and Skills in March 2015.

Our new Aerospace Engineer and Aerospace Software Development Engineering Degree Apprenticeship Scheme (EDAS) started in 2015 at our Military Air & Information business. In its first year, 32 apprentices will be able to study part time for a Foundation Degree and Level 4 Diploma, while gaining hands-on experience with some of the world’s most advanced aerospace technology as a precursor to a full Honours degree.

Giverney Newman, 19, is one of the first intake to the Aerospace Engineer EDAS route. She said: “Over the next five years, I will spend four days per week working on site, with one day working towards an Honours degree in Aeronautical Engineering. I really hope to play a big role in developing new aerospace products in the future.”

Movement to Work

Movement to Work (MTW) is a voluntary collaboration of UK employers committed to tackling youth unemployment through provision of high quality vocational training and work experience.

BAE Systems joined the Movement in 2014 and provided 149 placements to young unemployed people, to date. 61 of the candidates who have completed the programme, have secured employment within our apprenticeship, graduate schemes and direct entry roles.

Ian King is a member of the MTW Steering Group and in 2015 he took responsibility for leading the delivery of engagement of business networks of the top 25 MTW employers, in order to increase MTW membership and deliver impact at scale, towards reducing youth unemployment.

Since 2015, 104 new employers joined MTW which was 95% increase from 2014. BAE Systems has recruited 23 new members through our trusted supply chain, who have successfully provided a further 209 placements to young unemployed individuals to date.
Bringing ideas to life: The Empower Programme

Employees of our US Electronic Systems business can see their ideas brought to life through the Empower programme. If our employees see ways to capture new revenue or generate new intellectual property through technological innovation, or improve operations and processes, they can submit their ideas through the online Empower system. Once submitted, relevant business area experts assess the customer need, business case, and ingenuity of each innovation idea, and successful submissions can receive up to US$25,000 in Independent Research And Development (IRAD) funding to develop prototypes and analysis. Ideas submitted into Empower’s Continuous Improvement System follow a similar review process, but nearly all ideas receive some amount of funding to help mature the continuous improvements.

"The Empower programme helps Electronic Systems leverage the collective imagination of all our employees."

Rance Walleston, ES director of Collaborative Innovation

The fully transparent system allows employees to monitor the progress of an idea through the evaluation process and to collaborate with anyone who has submitted an idea. In the six years since the programme’s inception, $5m has been invested by the Company, with employees submitting more than 1,800 Innovation ideas. In 2015, the programme received 251 submissions, of which 150 received development support and 43 accessed IRAD funding to create new growth opportunities for the business.

BAE Systems is amongst the best for Vets

In November 2015, BAE Systems, Inc. ranked 5th in the ‘Top 10 Best Companies for Veterans’ listing, sponsored by Monster and Military.com (recruitment services). This followed our 8th place (4th for defence companies) in the Top 100 Military Friendly Employers list. As of 1 November 2015, the business had hired 932 veterans with many more in process. This will take the proportion of veterans in the BAE Systems, Inc. workforce to nearly 20%, with a very high retention rate (more than 97% in 2014). The business also has some of the best policies in place for employees who serve in the National Guard or Military Reserve Forces. This enables them to join deployments, drills or training and assist with natural disasters with the knowledge that their jobs are fully secure. An online military skills translation system has been established to allow prospective veteran employees to map their experience to that required by the business. Once our veteran employees bring their unique skills and perspective to BAE Systems, a Veteran Support Network connects all such employees across our many sites in the US.

932

Veterans hired by the business
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'.

### Safety

#### 2015 priorities
- Continue the drive towards a world-class level of safety performance
- Achieve a 10% reduction (15% stretch target) in the Recordable Accident Rate
- Maintain focus, management and reduction of significant safety risk
- Continue to drive a strong safety culture through communication, awareness and visible leadership

#### 2015 progress
- Sadly during 2015, there were two air incidents that resulted in seven fatalities, four of our employees and three from other companies
- The Group achieved a 15% reduction in the Recordable Accident Rate
- The number of major injuries across the Group increased by 21%

#### 2016 priorities
- Continue drive towards a world-class level of safety performance
- Achieve a 10% reduction in the Recordable Accident Rate
- Continue to focus on management and reduction of significant safety risk
- Continue to drive a strong safety culture through communication, awareness and visible leadership

---

**Highlights**

- Achieved our stretch target of a 15% reduction in the Recordable Accident Rate
- Two air incidents being reviewed by Air Accident Authorities
- Our four Naval Ships sites in the UK worked more than two million hours over 15 consecutive weeks in 2015 without a single recordable accident

---

Understanding and controlling risk in all its forms is crucial to our operations. We must constantly challenge ourselves by asking whether we are doing enough to protect the health and safety of ourselves or others. This might involve asking whether we can do something more safely in the light of new technology or looking at ensuring that the controls we have in place are being followed.

---

Mike Gee, Head of Health & Safety Assurance
Safety continued

Safety and health performance

During 2015, the Group continued to emphasise the role that employees and contractors can play in identifying, managing and reducing safety risks. Individuals are continually encouraged to review work processes to remove potential risks and prevent accidents, while suggesting improvements to drive up standards and achieve performance targets.

In 2015, we achieved our stretch target of a 15% reduction in the Recordable Accident Rate. This follows an 11% reduction in 2014. While this trend is welcome, we also note that in 2015, major injuries increased by 21%.

This reflects the diverse operations across the Group, which include office-based businesses, such as Applied Intelligence; modular manufacturing in a controlled ‘clean’ environment, such as Military Air & Information; and large scale engineering projects, which can be subject to the vagaries of the weather, such as our Naval Ships business.

The nature of the business can differ, for example, from short-term, commercial fit-out projects to longer-term, strategic relationships with national governments. The level and nature of the risks attached to these operations varies, requiring a strong local safety culture and controls, but this also sometimes creates variance in performance.

We are saddened to report that, during 2015, there were two air incidents that resulted in seven fatalities, four of our employees and three from other companies. We have been supporting investigations with air accident authorities in Saudi Arabia and the US, and are carrying out internal reviews into the incidents.

Recordable Accident Rate (per 100,000 employees)\textsuperscript{1}

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>732</td>
</tr>
<tr>
<td>2014</td>
<td>863</td>
</tr>
</tbody>
</table>

15% improvement

Target achieved

5% UK executive directors’ annual bonus\textsuperscript{2}

\textsuperscript{1} See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement
\textsuperscript{2} 85% (including 80% relating to financial objectives) of the UK executive directors’ bonuses are based on the achievement of objectives aligned to certain Executive Committee objectives measured on Group-level quantitative key performance indicators, with the remaining 15% based on the achievement of personal objectives aligned to the delivery of specific elements of the Group’s strategy measured using both quantitative and qualitative performance indicators.
De-risking every day activities

Group safety performance is a reflection of localised actions. Across our businesses in 2015, there are numerous examples of new projects and innovations designed to improve safety standards. These include:

- The ‘Good to Go’ programme at our Submarines business in the UK, that promotes the wearing of appropriate Personal Protective Equipment (PPE).
- The ‘Shelter in Place’ course at Electronic Systems in the US, that helps employees seek a safe place during an emergency.

Simulated safety ‘inquiries’ have been held within our Australian business. These ‘inquiries’ replicate a legal process that may result from an accident or incident. Our employees take on roles within a simulated inquiry as a means of generating a greater understanding of safety risks, their potential implications and the need for a strong safety culture.

Across the Group, our businesses have been making more use of digital technologies to improve safety performance; these include animations and video walkthroughs of working environments.

Sterling Heights of health & wellness

For the second year in a row, our Sterling Heights operation in Michigan, US, has been recognised as one of the ‘Healthiest Employers in Southeast Michigan’. The award, sponsored by Health Alliance Plan (HAP), a private healthcare provider and Crain’s Detroit Business, a publisher, recognises companies with a culture that promotes healthy employees and workplaces. The operation’s wellness programme and culture were examined by third parties to assess their quality and suitability.

Health awareness

BAE Systems Saudi Arabia has worked with Bupa Arabia to develop and run awareness raising programmes on general health and diabetes. The former focused on maintaining health and fitness and the importance of a balanced diet. Each employee, who decided to join the event, was offered a professional medical examination and issued with a health condition report and recommendations. The latter saw a Nurse Station operating in the lobby of the Al-Shaheen site, offering testing of blood sugar, blood pressure, height, weight and body mass index. This was supported by a workshop in the main conference room. To date, about 240 employees have benefited from the programme.

There is always Time for Safety

‘Time for Safety’ is literally time in the day when managers, supervisors and team leaders can discuss safety issues with their teams. In order to guide and provide structure for these discussions, a ‘Time for Safety’ website was launched in 2015. The website offers suggestions on time planning, choice of topics for discussion, structure and meeting follow up. The topics chosen can be based on the potential risks of certain activities, ongoing concerns or issues, recent incidents or near misses, future challenges or a review of certain safety scenarios (further supported by material on the website).

Bolt from the blue makes Kevin ‘Good to Go’

A key part of our approach to safety is the need for employees to assess the risks to themselves and others before starting work. In effect, they are required to start a task only if they are competent and prepared. In 2015, our UK-based Submarines business focused on ‘Good to Go’, a process that emphasises the importance of appropriate personal protective equipment (PPE) as one important element of the process before starting work. The importance of this was brought home to submarine cleaner, Kevin Cubin, when he was working in reactor compartment bilges in the fifth Astute-class submarine, Anson. During his shift, a four-inch steel bolt fell six feet and hit the top of Kevin’s safety helmet. “It’s so easy to take your helmet off to make working in awkward places a bit easier, but I realise how much damage it could have done if I hadn’t been wearing my helmet,” he said. Kevin was cleaning down after a grinding operation to allow welding to take place. This is a vital task, preventing contamination and ensuring a safe working environment for the welders.
Safety Maturity Matrix

Our Safety Maturity Matrix (SMM) remains a key frame of reference. It is divided into five levels of attainment from minimal compliance and ‘reactive’ behaviour through to pro-active and best in class. See www.baesystems.com/corporate$responsibility for an overview of the matrix.

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.
Reducing our waste and emissions and using raw materials more efficiently is good for our business and good for the environment.

**2015 priorities**
All businesses to continue to drive improvements in management of materials and resources.

**2015 progress**
All businesses set and met improvement targets for energy, water and waste, except where additional work opportunities and extremes of climate impacted.

**2016 priorities**
All businesses to continue to drive improvements in management of materials and resources.

---

**Highlights**

- Green Apple Award for our Naval Ships business in Glasgow
- Solar arrays now operational at Samlesbury, Portsmouth and Örnsköldsvik
- Intelligent buildings programme at Portsmouth Naval Base, UK
- Promoting recycling across the community in Oman

---

It makes sense to look at alternative energy sources that reduce costs and emissions, while also promoting energy security.

Jonas Wikman Director HR, Environment, Health & Safety and Security
Resource efficiency continued

Management approach

Management systems
Each of our businesses has defined and operates an environmental management system, including a policy statement and defined targets, procedures and responsibilities. The significant environmental impacts vary, depending on the type of business, nature of the work and stage in the contract. For example, the environmental profile of our predominantly office-based cyber-intelligence operations will vary from that in our Naval Ships and Submarines businesses. Across the Group, the kinds of environmental impacts addressed within the system include material and solvent use, waste and recycling, air emissions, energy and greenhouse gases.

Governance
Dedicated teams from across our business define and oversee the management systems and associated performance. They are guided by the Executive Committee which has approved environmental objectives for the Group. Progress against these objectives is reported to senior management through the Quarterly Business Reviews.

Operational efficiency
Our primary operational environmental impacts relate to the use of energy in heating and lighting our facilities, water for washing and some solid wastes from production and assembly.

Each of our businesses sets clear targets within their respective environmental management system. There is strong emphasis on resource efficiency, chiefly, reducing energy and water used and waste generated. Each business sets targets that reflect the relative impacts of different stages of production and the maturity at their facilities. While reducing the environmental footprint is a key driver, we also recognise the potential cost savings associated with purchased energy, raw materials and waste disposal.

In 2015, our businesses implemented a range of energy and resource efficiency projects. Some of these are listed right:

– The UK Munitions Environmental Apprentice Challenge led to a reduction in diesel used to test boilers at Glascoed; rainwater harvesting at Radway and a more efficient effluent system at our Washington site
– Energy saving through more efficient delivery of compressed air at UK Naval Ships (see case study)
– A new solar farm, powering our Military Air & Information facility at Samlesbury, UK; large scale solar electricity at our Portsmouth Naval Base buildings in the UK; and Scandinavia’s largest facade-mounted solar array on the BAE Systems Hagglunds building in Örnsköldsvik, Sweden (see case study)
– Since March 2015, our Submarines employees in Barrow, UK, have been able to access Liftshare, a scheme that links people planning to make similar journeys, with a view to sharing transport

Our greenhouse gas (GHG) emissions mainly derive from the energy generated and purchased at our facilities. In 2015, our Group-wide GHG emissions increased by 1%.

Resource efficiency

<table>
<thead>
<tr>
<th>Total greenhouse gas emissions (tonnes CO₂e)¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,352,200</td>
</tr>
<tr>
<td>+1%</td>
</tr>
</tbody>
</table>

| 2015 | 1,352,200 |
| 2014 | 1,336,751 |

<table>
<thead>
<tr>
<th>Total greenhouse gas emissions per employee¹ (tonnes CO₂e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
</tr>
<tr>
<td>0%</td>
</tr>
</tbody>
</table>

| 2015 | 18 |
| 2014 | 18 |

1. See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement
Solar powering production

The Group’s wider productivity and efficiency agenda includes a focus on the cost of our energy. Given the latter’s contribution to our environmental footprint it makes sense to look at alternative sources that reduce costs and emissions, while also promoting energy security. Solar power is a well-proven and economically viable technology, which has a growing role in our energy portfolio.

In 2015, we launched significant solar projects at three of our facilities:

A solar farm, the size of eight football pitches is helping to power the production of key components for Typhoon and F-35 Lightning aircraft at Samlesbury in the UK. The 9,000 solar panels will generate 10,000kWh per day (two megawatts of power at any one time) and cut almost £400,000 from the site’s annual electricity bill. In addition, it will stop 1,500 tonnes of carbon being emitted to the atmosphere, compared to fossil fuel-based generation methods.

Almost 2,000 solar panels with the latest photovoltaic technology have been installed on two of our key buildings at Portsmouth Naval Base in the UK. This 500kW system should generate savings worth more than £1m over the next 20 years. The array also comes on the back of work to install efficient LED lighting in offices and street lamps, air-source heat pumps and intelligent control systems. Taken together, these technologies, initiated and managed by BAE Systems, will save the UK Ministry of Defence more than £500,000 in 2015/16.

Solar panels have transformed the headquarters of the Swedish business at Örnsköldsvik. At 2,500sqm, the solar panels represent the biggest facade-mounted solar plant in Scandinavia, generating approximately 370kW at peak production. The system is expected to annually produce about 312MWh of energy and reduce carbon emissions by 187 tonnes per year.

| Resource efficiency continued |

165,000
Enough electricity generated everyday to create 165,000 cups of tea

81,800
3 Watt LED Light bulbs can be powered 24/7 for a year

8x
The size of the Wembley pitch

Greenhouse gas emissions data for the period 1 November to 31 October (tonnes CO₂e)

| Combustion of fuel within BAE Systems facilities and vehicles (Scope 1)¹ |
| 2015 | 596,515 |
| 2014 | 585,233 |

| Electricity and steam purchased for BAE Systems use (Scope 2)¹ |
| 2015 | 607,876 |
| 2014 | 594,866 |

| Business travel in non-BAE Systems vehicles (Scope 3)¹ |
| 2015 | 147,809 |
| 2014 | 156,652 |

Methodology

The greenhouse gas emissions data is reported in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard ‘Operational Control’ method, and emission factors for fuels and electricity are taken from the UK government’s Department for Environment Food & Rural Affairs (DEFRA), published at www.ukconversionfactors.carbonsmart.co.uk/

The CO₂e associated with carbon dioxide, methane and nitrous oxide is reported. Greenhouse gas emissions associated with hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride are estimated to be immaterial to total emissions and are, therefore, not reported.

The principal record of the Group’s worldwide facilities is its legal department’s Global Property Database. Greenhouse gas emissions are primarily calculated from energy consumption records reported via the Group’s global environmental database. Where actual usage data is not available for facilities and residences within the Global Property Database, an estimated consumption is used based on the type of building.

Greenhouse gas emissions related to business travel include air travel data for the majority of the global business and rail data for business units operating in the UK and US. These data are taken from suppliers’ procurement records. Emissions from joint ventures and pension scheme properties not occupied by the Group are not included.

¹ See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement
Resource efficiency continued

Product efficiency across the lifecycle

From designing submarines with better waste compacting systems, through highly-efficient aerospace engines to helping customers make vehicles last longer, our engineers also reduce environmental impacts across the product lifecycle. This includes designing with sustainability in mind, minimising waste during manufacturing, and helping to reduce the impact of our products when they are used, upgraded or disposed of. For example, the environmental footprint of a Typhoon aircraft is much larger when in service than in the manufacturing phase.

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 UK Ministry of Defence/Industry Sustainable Procurement Working Group. We are also a member of ADS Group, the premier trade organisation advancing the UK Aerospace, Defence, Security and Space industries. We participate in its work streams which are designed to help the industry prepare for and respond to legislation on hazardous materials, environmental design and carbon management.

We are also working with the Institute of Environmental Management and Assessment (IEMA) as part of an industry-wide move to develop professional environmental competencies.

The intelligence of buildings

In addition to the energy efficiency work at Portsmouth Naval Base in the UK, we are also looking at making the buildings ‘intelligent’. This integrates sensors and systems to measure all building services such as lighting, heating, ventilation, air conditioning, emergency systems and data security.

The systems will be able to monitor each light, viewing the ‘health’ of a bulb and optimising their operation and replacement cycle. The emergency lights and systems can also be remotely monitored, and has the ability to carry out automatic fire alarm tests.

Setting the recycling pace in Oman

There is limited infrastructure for waste management and recycling in Oman. However, there is a growing recognition of environmental issues and BAE Systems was amongst the first organisations to take action. Working with a local organisation, Plasbin, we have distributed recycling bins to our main sites in the Sultanate, including a residential compound housing many employees. The bins are for collecting waste plastic, paper, glass and tin, most of which are recycled locally. The recycled plastic is used to produce more bins for schools, local businesses and public authorities, along with messaging around waste reduction, recycling and re-use. Through this simple measure, we are disposing of less waste, raising awareness and supporting behaviour change in the community.

An Apple for Naval Ships

Our UK Naval Ships business in Glasgow has won a prestigious Green Apple Environment Award for its work on reducing energy demand by decentralising the delivery of compressed air. The Green Apple’s recognise environmental best practice internationally and the site will now represent the UK at the European Business Awards for the Environment.

The judges were impressed with the resulting energy savings (enough to power 160 houses for one year). This also translates into a cost savings of over £100,000 and a reduction in emissions, equivalent to more than 500 tonnes of carbon.

This is fantastic recognition of the efforts of the team and Naval Ships contribution towards environmental awareness.

Geoff Raybould, Head of Facilities Management
The three key elements of product stewardship are innovation, integrity and adherence to international conventions across the product lifecycle.

### Adherence

The Group operates in a highly-regulated environment across many jurisdictions and is subject, without limitation, to regulations relating to both the way in which it operates as a business and how it designs, builds, maintains and supports its products.

It is important therefore that the Group maintains a culture in which it focuses on embedding responsible business behaviours and that all employees act in accordance with the requirements of the Group’s policies, including the Code of Conduct, at all times.

### Innovation

BAE Systems have developed some of the world’s most innovative technologies and we continue to invest in research and development to generate future products and capabilities. The Company-funded research and development often leads to customer-funded development activity as requirements mature.

We spent £1,263m (2014 £1,343m) in 2015 on R&D, of which £168m (2014 £137m) was funded by the Group.

### Integrity

The Company sets out four principles that describe its approach to the safety of Products: Accountability; Level of Safety; Conforming Products; and Learning and Sharing Information. They apply throughout the life of the Product and throughout the supply chain.

Certain responsibilities for the safety of our Products can continue well beyond the contractual life of most Projects. Adherence to well thought out Product Safety Management Systems reduces the risk of unintentional harm to people, property and the environment.

The level of safety required for each Product is achieved through the application of robust processes and the thoughtful and responsible attitudes and behaviours of many individuals who are alert to the safety implications of their actions whilst working within a Product Safety Management System.

To improve safety standards, we focus upon raising awareness of our employees’ roles in identifying, managing and reducing safety risks.

---

**Highlights**

- R&D expenditure in 2015 amounted to £1,263m, of which £168m was funded by the Group.

We work together with our Customers to help meet their sustainability needs through reducing risk to the capability from cost increases, operating limitations, environmental regulation and resource constraints. We are also seeking to identify and limit climate change risks that will impact upon the operability of the Product. It’s a challenge, but we are working together to achieve this.

Jayne Rogers, Chair of UK Product Environmental Working Group

[More online](http://www.clusterconvention.org)
Product stewardship continued

Management approach

Our approach to Product Stewardship is defined in our Code of Conduct and our Lifecycle Management Framework, which specifies how we manage projects. The latter is overseen by the Managing Director Performance Excellence.

In addition to the Lifecycle Management Framework, our employees also follow the Group-wide Environmental Policy and Product Environmental Management Handbook. Our environment teams develop guidance documents and share best practice so that we achieve consistently high standards across the Group.

Product stewardship means balancing long-term development and use cycles, with R&D, cost and reductions in environmental impact. For example, environmental qualities designed into products may have cost and usability considerations. Increasingly though, we adopt a through-life approach, which means that we support customers to maintain products in use and dispose of them responsibly.

Innovation

Our R&D expenditure in 2015 was £1,263m, of which £168m was funded by the Company, focused on technological innovation and improvements in manufacturing and product lifecycle improvements. Most of the R&D is undertaken by world-class scientists and engineers in all of our businesses internationally.

Our R&D expertise is in great demand from government and commercial customers. In 2015, we worked with the UK MOD, US Department of Defense, the Government of India, Reaction Engines, UK Sport, Land Rover BAR Technical Innovation Group, the National Defence University of Malaysia and many other educational institutions.

A growing part of our research work focuses on digital and cyber intelligence as well as modelling and analysis including ‘big data’. This is exemplified by one of our Group businesses, CORDA, which is a growing modelling and analysis consultancy with over 30 years’ experience supporting the UK MOD and other UK Government agencies. CORDA is a market leader for modelling and analysis within the defence industry.

Our Operational Framework mandates that we protect the associated intellectual property of our products. As a result, BAE Systems has a portfolio of patents and patent applications covering approximately 2,000 inventions internationally (as of 31 December 2015).

Keeping soldiers safe from sound

One of our newest innovations, that is currently in development, could potentially help soldiers protect their hearing and communicate effectively in battle.

Military personnel operating in loud and dangerous environments need to protect their ears from deafening noises like gunshots and bomb blasts. But they also need to be able to communicate effectively and hear commands to complete their missions safely and successfully.

Our engineers are working closely with the military to understand their needs. They took an existing device that conducts audio communications through bone and shrunk it to the size and weight of a five pence coin. With the device embedded in their helmets, soldiers could wear ear protectors to block out noise and still receive vital audio messages directly to their inner ear.

£1,263m*

BAE Systems R&D expenditure 2015

* of which £168m was funded by the Company.
Environmental impacts through the lifecycle

Our products can have an impact on the environment, including:

– Emissions that may contribute to climate change and can affect local air quality

– Residual ordnance that, if poorly managed, could contaminate land or water courses or affect the health of local communities

– Disposal of hazardous materials from manufacture and maintenance

We rigorously assess our products and aim to minimise any environmental impact and reduce this during manufacturing and through responsible procurement. The table opposite summarises some of our resource efficiency and environmental initiatives throughout the lifecycle.
Working with customers

Aircraft, naval platforms and land vehicles are built for speed, resilience and power with relatively long service lives. As a consequence, the majority of carbon emissions occur during their working lives compared to those generated during manufacture or disposal. We therefore work with our customers to help them understand the through-life carbon footprint of our products.

Our customers increasingly ask us about the environmental footprint of our products, particularly those in the UK and US. This can be a key issue for governments and commercial customers alike. For example, we work with the UK Ministry of Defence to assist in delivery of its Sustainable Procurement Strategy by improving the design environmental characteristics of our products to help meet our customers’ environmental challenges.

Some of our R&D effort is focused on improvements to safety and well-being and environmental impacts associated with our products in use, when they are no longer under our direct control.

Revolutionary air-breathing rocket engine

In 2015, the Group announced an agreement to acquire a 20% interest in Reaction Engines, a UK company and also enter into a working partnership to accelerate the development of its SABRE™ aerospace engine that combines both jet and rocket technologies. It has the potential to revolutionise hypersonic flight and space access.

This collaboration will draw on our extensive aerospace technology and project management expertise and provide Reaction Engines with access to critical industrial, technical and capital resources to produce a ground-based demonstrator. SABRE is an advanced combined cycle air-breathing rocket engine designed to enable an aircraft to reach speeds of over five times the speed of sound in the atmosphere. It then switches to rocket mode and achieves supersonic flight up to orbital velocity, equivalent to twenty-five times the speed of sound. SABRE offers a significant reduction in propellant consumption and weight compared to conventional rocket engines which have to carry their own oxygen. Nigel Whitehead, Group Managing Director, Programmes & Support, BAE Systems said, “Our partnership with Reaction Engines is part of our sustained commitment to investing in and developing prospective emerging technologies. BAE Systems’ considerable engineering and development expertise will help support the delivery of the first demonstrator for the SABRE engine.”

Nigel Whitehead, Group Managing Director, Programmes & Support

Mission Impossible Innovation Challenge

In 2015, 12 of our US-based Intelligence & Security sites took part in the Mission Impossible Innovation Challenge, part of National Engineers Week. The mission tasked employee teams to build a machine to safely deploy a cutting-edge intelligence, surveillance and reconnaissance sensor over dangerous terrain to gather data on the enemy and land safely at a US base. For the purposes of the challenge, the sensor was a foam ball and the teams could use household items such as rubber bands, straws and balloons. Prizes were awarded for the winning teams at each site.
Our supply chain is extensive and critical to the function of our business. We expect our suppliers to follow our principles and standards on governance and ethical behaviour. At the same time, we treat them with respect and fairness.

Chuck Marden, Director Compliance and Business Solutions

---

Our new internal Commercial and Procurement Policies set out requirements for our business leaders to ensure that Responsible Trading and Business Conduct risks are managed in our contracting arrangements, both with customers and suppliers.

Chuck Marden, Director Compliance and Business Solutions

- Highlights
  - New Procurement Policy
  - Supplier Principles developed for launch during 2016
Supply chain continued

Management approach

We depend on almost 27,000 suppliers across the world to support our business and provide innovative and cost-effective products.

Suppliers’ commitment to compliance to required standards is evaluated during the supplier selection process and, for existing suppliers, as part of ongoing quality and approvals assurance. In January 2016, we launched a new Procurement Policy, setting out the requirements for supplier engagement by our Businesses, and we have developed Supplier Principles for Responsible Business Conduct that will be launched Group-wide with our suppliers during 2016.

Procurement and supplier relationships in 2016

Our Global Procurement Council provides governance and oversight. The Council consists of the procurement directors from across the Group who manage and control supplier relationships, categories of supplier products, policy and process, and training for our procurement teams. The Policy & Process Group, and People Capability Group are the main bodies that ensure compliance with standards in our Businesses and share best practice around each Business and across the Group.

Our procurement teams assess suppliers against anti-bribery and corruption criteria. This assessment process is aided by a set of Responsible Trading questions relating to issues such as ethical standards, environmental impact, safety, export controls, human rights and legal controls. After selection, we continue to engage with our suppliers for assurance at all stages of a project, through to completion.

Our new Procurement Policy and associated Lifecycle Management guidance focuses on the following:

- **Supplier standards**: Identifying and selecting suppliers who share our values and meet our standards.
- **Managing suppliers**: Managing supplier performance, risks and opportunities.
- **Procurement**: Reducing the environmental impact of the products and services we buy.
- **Supplying suppliers**: Supporting suppliers to minimise risks, maintain business continuity and helping them improve their performance by sharing best practice.

Our policies and principles are consistent with key regulatory requirements. For example, in the UK, the Modern Slavery Act 2015 is designed to tackle slavery and trafficking in England and Wales.

As a company, we are currently ensuring that our procedures offer the necessary safeguards against such practices.

Working with Small and Medium-Sized Enterprises (SMEs)

SMEs are important to the successful delivery of our programmes, therefore, we work to create and maintain a vibrant supply chain.

In 2015, we had contracts with approximately 2,700 UK SMEs, with a global spend of £600m.

In addition to direct relationships, SMEs are also supported through contracts with our tier one suppliers.

All of our suppliers, including SMEs, are selected on technical capability, quality, cost, schedule, capacity, flexibility, financial and non-financial risk. However, we operate mechanisms that take account of a smaller supplier’s more limited resources. These include direct subcontracting relationships, partnerships and collaboration, ‘Meet the Buyer’ events, supplier forums, the ADS 21st Century Supply Chains (SC21) Programme, a Supplier Portal for registering interest, sharing good practice, and encouraging high-quality research through the open calls process.

Our Corporate Technology programme and Commercialisation initiatives have aided and funded more than 50 innovative SMEs. Our Technology Conferences also bring our businesses together with tier one and SME suppliers.

Working alongside other Prime contractors in the UK, we have invested in the ADS Supplier Accreditation Register (OSCAR) to allow defence suppliers to maintain one set of validated accreditation information available for customers to access on an industry-wide basis.

In order to streamline the way we work with our supply chain, we have Standard Conditions of Purchase for all routine purchases in each of the regions we operate.
Supply chain continued

Sustainability in the supply chain

Our teams and suppliers embrace environmental sustainability practices. They implement key guidance from the Group Sustainable Procurement Handbook in respect of minimising energy, waste and use of water, as well as recycling as packaging and other materials, and reducing emissions from our transport arrangements.

Global recognition for procurement services

The Group is the first defence, aerospace and security organisation to receive accreditation from the Chartered Institute of Purchasing and Supply (CIPS) for its procurement services. The globally-recognised CIPS Corporate Certification was awarded to Indirect Procurement Services, part of BAE Systems’ Shared Services division in the UK, in recognition of its purchasing policies, processes and procedures.

Indirect Procurement Services is responsible for purchases that, while essential for our UK operations, do not form part of a finished product that is sold on to a customer. It oversees an annual expenditure in the region of £750m. As well as adding value to the business and enabling its customers to focus on delivering complex, challenging platforms and services, Indirect Procurement Services continues to look at ways to improve procurement processes for the entire business.

David Noble, Group CEO CIPS said: “BAE Systems is an excellent example of good practice. The Indirect Procurement Service is well-managed and controlled by experienced staff. The processes and policies are well written and have been rigorously enforced. This is especially the case on policies surrounding ethics and behaviour which many organisations would do well to follow.”

To achieve certification, Indirect Procurement Services’ operation was assessed against CIPS’ world-class standards across five areas – leadership and organisation, strategy, people, processes and systems, and performance measurement and management.

“BAE Systems is an excellent example of good practice. The Indirect Procurement Service is well-managed and controlled by experienced staff. The processes and policies are well written and have been rigorously enforced. This is especially the case on policies surrounding ethics and behaviour which many organisations would do well to follow.”

David Noble, Group CEO CIPS

It pays to pay

Our Supplier Payment Policy states that all suppliers should be paid in accordance with the terms and conditions attached to the applicable purchase order. The Group is a signatory to the UK Government’s Prompt Payment Code, committing us to pay on time, clearly communicate payment procedures and encourage adoption of the Code. Our UK standard Payment terms are net 30 days.
We are an employer of long standing in many locations across the world. Significant relationships have been established with not-for-profit organisations, education providers and Non-governmental organisations (NGO) across our markets.

<table>
<thead>
<tr>
<th>2015 priorities</th>
<th>2015 progress</th>
<th>2016 priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drive improvements in the recording and reporting of Community Investment activities globally</td>
<td>An increase in accurate data recording and reporting across the business</td>
<td>Continue to drive improvement of our Community Investment reporting</td>
</tr>
<tr>
<td></td>
<td>Improved capture and reporting of education activities that fall under the banner of Community Investment</td>
<td>Roll out and embed a single global reporting tool to create alignment and consistency of data</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Maintain focus of our criteria in Community Investment across all businesses</td>
</tr>
</tbody>
</table>

**Highlights**

- In 2015, our Community Investment programme contributed more than £11m to local, national and international charities and not-for-profit organisations.
- An independent report highlighted the significant contribution that BAE Systems makes to the UK economy.
- Our efforts are focused on initiatives and organisations that support our customers, education and our future workforce, and local communities.
- We work with organisations to build relationships and establish the level of impact of our contribution.
- Our employees are encouraged to support charities and not-for-profit organisations with fundraising and volunteering activities.

As a company, it is important that we invest in the communities in which we operate. Through our Community Investment programme we work together with local and national organisations to align our resources and help make a real difference.

Louise Baverstock-Price, Head of Group Community Investment
Community continued

Management approach

We seek to make a significant and positive impact on local communities, not-for-profit organisations, education providers and NGOs. We do this through the contributions of Corporate programmes and individual employees. Our Community Investment team manages our Corporate programme. This channels support from the Group and encourages our employees to engage through donations, fundraising, sponsorship, education initiatives and general volunteering or assistance. These activities are promoted and organised at a local level and through the corporate website, intranet and associated media.

Long-term investments

In 2015, our Community Investment programme contributed more than £11m to local, national and international charities and not-for-profit organisations. As well as one-off support, in the UK, we also invest for the longer term through our Relationship Charity Awards that fund projects for up to five years.

We are a member of the London Benchmarking Group which consists of more than 120 corporate community investment professionals from many of the world’s leading companies. We use the Group’s methodology to build an accurate picture of the value of our support and its impact on community partners.

Supporting disaster relief efforts

We support disaster relief efforts across the world, and in 2015 the Company donated funding to charitable organisations working on relief for the Nepal Earthquake, and the Cumbrian Floods in the UK. Our employees were provided with information on how they too could support, and in particular fundraising and volunteering activities were organised in the UK to aid the relief efforts for the Cumbria floods, which personally impacted some of our employees.
Community
continued

Supporting the armed forces
As a major international defence and security business, our customers include the armed forces of many of our markets. Our products and services are designed to protect personnel in the field, and we also support a range of armed forces charities and agencies that provide assistance to serving personnel, veterans and their families.

In the UK, we work with five leading armed forces charities – SSAFA, ABF The Soldiers Charity, Combat Stress, RAF Benevolent Fund and the RNRMC, each of them providing lifelong support for the Royal Navy, British Army, Royal Air Force, Reservists, veterans, and their families. Our employees volunteer with many of the initiatives organised by these and other charities such as the Royal British Legion. We are also a major donor to the National Memorial Arboretum and sponsor each of the three cadet forces.

In the US, we actively support the United Service Organizations (USO) and work with the Tragedy Assistance Program for Survivors (TAPS), who work to provide support to bereaved military families and the Military Child Coalition, providing educational support for children from military families. And in Australia we support Soldier On, a charitable organisation that supports men and women who have been physically or psychologically affected by their service.

Making a difference at a critical point
During 2015, more than 100 veterans’ career prospects were improved as a direct result of the educational and vocational bursaries funded by the Company, through our Relationship Charity Award to ABF, The Soldiers Charity. Courses funded by the bursaries ranged from electrical and gas installation, professional diplomas and ‘Future for Heroes’ courses, which help service leavers gain confidence and look to the future positively.

The impact on the lives of the soldiers who have received BAE Systems Bursaries is significant; this funding is often disbursed at a critical time and enables the beneficiaries to have a more positive outlook for their future civilian careers.

Kim Walters, UK Community Investment Manager

The Mission Continues
In 2015, BAE Systems, Inc. started working with The Mission Continues, a not-for-profit organisation that empowers veterans who are adjusting to a life at home to find purpose through community impact. By supporting the organisation with three community platoons, and investment in the Fellowship Program, we are helping veterans acquire new skills and build networks that help them successfully reintegrate to life after military while making long-term, sustainable transformation in communities and inspiring future generations to serve.

The Sun Military Awards
BAE Systems in the UK has sponsored the Sun Military Awards (The Millies) since its inception in 2008. The awards celebrate British troops’ character, selflessness, bravery and dedication.
BAE Systems has pledged a £5m donation over five years to the new Defence and National Rehabilitation Centre (DNRC), due to open in 2018. It will replace the UK’s existing armed forces facility at Headley Court, Surrey and is funded by the Black Stork Charity, which has raised more than £200m of a £300m target.

The £5m is the Group’s largest ever donation to a single charity and will fund the BAE Systems Performance Maximisation Centre. This state-of-the-art facility will focus on the study of human motion and give injured service personnel the best available rehabilitation support. Facilities include an optical motion capture system to generate 3D views of a patient’s movement, allowing for greater customisation of prosthetic limbs, mobility aids and other physiotherapy.

“BAE Systems’ exceptional donation sets the standard. It is excellent and entirely fitting that the Performance Maximisation Centre, housing state-of-the-art facilities and research, will carry the Company’s name.”

General Sir Tim Granville-Chapman, DNRC Programme Director
Volunteering and fundraising

We encourage and enable our employees to contribute their time, knowledge and skills to make a difference to local schools, charities and voluntary organisations. In many cases, volunteering is a personal development option, for example, running a careers advice session at a local school or providing health and safety training for a local charity.

Employees are also 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. This matches employee contributions dollar for dollar up to $2,500 per year, per employee.

Volunteering efforts take wing in Australia

Our business in Australia supports the Royal Flying Doctor Service (RFDS) with fundraising and volunteering across all of our sites. With 63 aircraft at 22 bases, the RFDS provides 24/7 emergency and primary healthcare services to 280,000 Australians each year. RFDS is not-for-profit and therefore relies on support and funds from the community to equip its ‘flying intensive care units’, at a cost of Aus$6m each.

Making a difference in Saudi Arabia

The Company has established strong links with King Saud University (KSU) and has co-created a scholarship programme that supports talented engineering students through their academic studies. While they can access further training, subject matter experts and hands-on experience, there is no obligation to join the business when they graduate.

In collaboration with Alamiah for Education and Training, our BAE Systems Summer Programme provides a training programme for students during their summer break. The programme includes English language, IT and other useful skills to prepare them for the professional world.

Partnership with a Smile

In 2012, we signed a partnership agreement with the Smile Foundation, an India-wide organisation that works with 200,000 underprivileged women and young people in 25 states. The partnership concluded in 2015, in which time it has supported the education of 1,000 children between the ages of 6–16 in seven rural and urban locations in six states. It also helped to create and operate a purpose-built Mobile Medical Unit called Smile on Wheels, equipped with the latest equipment, trained personnel and supplies, serving Bengaluru City.
Community continued

Encouraging young engineers in the UK

Our UK business is actively involved in programmes that engage and encourage young people to follow careers in engineering.

BAE Systems is a founding supporter of the annual £1m Queen Elizabeth Prize for Engineering (QEPrize). This prestigious international competition celebrates ground-breaking innovation that benefits mankind, raising the profile of engineering and inspiring young people.

BAE Systems is lead sponsor for the Big Bang Science Fair and the Skills Show exhibitions. At both fairs we work to inspire young people to consider subjects and careers in the areas of science, engineering, technology and maths, whilst creating awareness on the potential opportunities available.

Supporting the UK economy

‘The Impact of BAE Systems on the UK Economy’, a report published by Oxford Economics in 2015, provides a comprehensive analysis of our economic impact in the UK at national and regional levels. It examines the contribution of our employees and the wider supply chain, as well as the value of our exports and technological innovation to the broader economy. Based on 2013 data, the report showed that BAE Systems contributes a total of £7.9bn to the UK economy, comprising direct, supply chain and workforce consumer spend contributions, equivalent to 0.46% of the UK’s total GDP. It is also one of the most productive companies in the UK, with productivity of £95,000 per worker, more than twice the national average.

It is a significant contributor to regional economies in the North West (Lancashire and Cumbria), Scotland (Glasgow) and the South (Portsmouth) regions.

Commenting on the report, BAE Systems’ Chairman, Sir Roger Carr said:

“Our employees are incredibly proud to play a key role in protecting and serving the Armed Forces that protect and serve us. In doing so, BAE Systems makes a material contribution to the economic health of the country as well as to the safety of the nation.”
Contact us

corporate.responsibility@baesystems.com